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**Focus: Building
a Power Niche***Man who chases two rabbits catches neither.*

—Confucius

Last year, the managing partner of a 35-person CPA firm invited me to conduct one of our sales training programs for his entire group of professionals. He was kind enough to offer to pick me up at the airport and treat me to dinner before taking me to my hotel for the evening. He had invited two of his partners to dine with us so I could gain a better flavor of his firm. I figured that this would be a good time to connect with him and his partners, learn more about his firm, and perhaps pick up a few tidbits of information about the firm that would help me the next day.

He had sent me information in advance that indicated that his firm had niches in healthcare, auto dealers, construction, manufacturing, wholesalers, community banking, and not-for-profits. It seemed to me to be a lot of niches for such a small firm. Alarm bells went off because having many niches often means having no niches.

Over dinner, I asked a couple of questions and confirmed my assessment. I asked the partner who said she led the healthcare niche, “How many physicians are there in your city?” Her puzzled expression was the deer-in-the-headlights look I often get when I ask a niche specialist the size of his prospect base. “I’ve really never thought about it,” she said. I later learned that each of the six partners had healthcare clients.

What Is a Niche?

The firm just mentioned had accumulated several collections of similar clients over the years, but it did not have a *niche* in any particular field. CPAs are often confused about what constitutes a niche. A niche is a specific group that has the same problems, regulations, market forces, and concerns.

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A niche might be general contractors doing over \$10 million a year, retired executives, dental practices, software developers, or auto dealers.

Serving a select grouping of niche clients provides more value for both the client and the CPA. In such cases, clients receive more value because they can lean on the CPA for more unique and in-depth services. The CPA becomes more of an expert and can work with the type of clients he or she likes. By understanding the clients' accounting and tax rules and business issues, the CPA can become more of an advisor instead of just providing basic accounting services. Because clients are receiving more value than they would from a nonniche CPA, they are willing to pay their valued advisor a premium yield. Truly, this is the ideal situation for both parties.



The idea of being all things to all people is a thing of the past.

—Michael Dell, chairman and CEO, Dell Computer

Dick Reck, whom we met in Day 1, says, “Eight years ago, under the leadership of our then chairman, Jon Madonna, we reorganized into true industry-oriented lines of business. Our firm had always had an industry focus. But this reorganization was based on the theory that KPMG should be organized and go to market in a manner that reflected our clients' markets. We had historically been successful, for example, in our bank practice, where we had followed this focused approach for years. Twenty-five years ago, when I was part of our bank practice, we audited 43 of the 100 largest banks in the United States. That success was due largely to the focus that those partners had in serving clients in just one market. It was on that theory that KPMG established the Information, Communications & Entertainment (ICE) line of business. Back in 1982, when we started this practice (then called the High Tech Practice), we had just 7 partners and managers and 26 clients. In Chicago, we now have a team of about 200 professionals just serving a client base of hundreds of information and technology clients. With this type of focus and market penetration, we have no real competition.”

Benefits of Having a Niche-based Practice

When your firm caters to one or more niches, the deep skill set and economies of scale that develop enable staff members to become very efficient in low-value, routine services. Once you become efficient in delivering routine services, you will have the time and resources to develop skills in unique services. I believe in what I preach—my firm works only with CPA and consulting firms.

For many years, PricewaterhouseCoopers has focused its practice on the largest global companies. Before Ernst & Young swallowed it up, Kenneth Leventhal (KL) was clearly the “go-to” CPA firm in the real estate industry. KL was notorious for making money when the real estate industry was moving up *and* when it was moving down. Crowe Chizek, a midwestern CPA firm, has seen its revenue and profits soar as a result of its intense focus on three dying and consolidating industries: manufacturing, auto dealers, and banking. George B. Jones is one of the most profitable and competitive CPA firms in the United States, serving only auto dealers.

The Key Is Focus

It is easy to be unfocused. Many midsize firms have patched together a group of professionals who have attracted a variety of clients. Generally clients are assigned to the partner who made the original contact or who answered the phone when the call came in, whether the partner’s skill set serves the client or not. In some cases, firms have merged various skills and clients into a Rube Goldberg type of business structure. It is not unusual to find firms like the one in the opening story, where each partner has a few of each type of client. Often staff members move from a bank to a car dealer to a construction firm during any given month.

Rarely will you find unfocused firms in the high-profit or high-growth category.

For many years it has become clear, the firms that are focused make the money. We find every year the divide between the haves and have-nots in the accounting industry gets wider because of this one issue.

—Art Bowman, editor of *The Accounting Report*

Bill Fingland says, “I specialized in healthcare. In 1982 BKD opened an office with \$300,000 of business in Tulsa, Oklahoma. At that point in time we had no healthcare practice in Oklahoma to speak of. At the same time, the Tulsa practice needed someone who had some audit background, and I did. But they also needed to develop a specialty niche, and we were hoping healthcare could be that. In 1982 I was asked if I wanted to go that direction and I said yes. I thought that it was a great opportunity for me to do some things on my own and maybe it was time for the student to leave the nest. So for the first four or five years, I focused almost all my time developing the healthcare practice in Oklahoma.”

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Fingland became the firm's director of healthcare in 1994 and managing partner in 1997. He led the Tulsa office's healthcare practice to about \$4.5 million in Tulsa by 1997. The healthcare specialty represents the most significant industry specialty in that practice. Fingland grew the practice with intense focus and determination, not by trying to be all things to all clients.

Mike Kruse, whom we met in Day 6, built a firm around construction. Starting from ground zero in 1993, the firm had grown to \$7.5 million by the end of 2000. Such a growth rate can only be accomplished with focus. Mike says, "A key to success is developing a reputation. The major part of our practice is construction. The major referral sources are bond agents or surety underwriters, so we produce what we call a Surety Underwriter and Bond Agent Seminar. It basically covers what's going on in the industry from our perspective. Here's what we are finding in our clients. They develop confidence that you understand their needs. And typically referral sources come about for a couple of reasons. First, they like you, trust you, and know you would do a good job. Second, the referral source wants you to do the work because they know that you will make their job much easier. If we improve somebody's quality of life or give him a better chance to succeed because we understand the issues, then they want to refer work to us. You can only gain this reputation if you truly offer a focused, deep set of skills."

When you are meeting a prospect for the first time, are you asked: "How many other businesses like mine do you work on?" The prospect is really asking "Do you understand my business?"

Whenever I talk to clients of CPA firms, the most common reason I hear for liking their CPAs is that "the CPA firm understands me and my business and that's the key reason I use them." Clients' most common criticism is that "the partners only understand tax law and do not really understand the nature of my business."

Some CPAs object to focusing deeply into a niche market; they say, "Our clients don't want us working for their competitors." That sentiment *does* exist to a small extent in the marketplace. Dick Reck said, "About ten years ago, I lost a proposal to a prospective client because I did work for his competitor. Last year that prospect became a client of KPMG because we did work for all his competitors." Focusing as Mike Kruse, Bill Fingland, and Dick Reck do will make you irresistible. So long as the prospect can trust

that you will not divulge company secrets, your depth of knowledge is compelling.

Developing Your Niche

How can you develop a niche? To do so, a firm must take four steps.

1. Choose a champion—a person who will dedicate him- or herself to leading the niche.
2. Do whatever is necessary to assemble a critical mass of clients under this champion.
3. Commit to a deep set of skills, which includes training beyond the typical industry CPE classes offered by state societies.
4. Develop a communications program to the marketplace, including clients, prospects, and referral sources.

Choosing a Champion

A champion must be a senior-level person who truly loves the industry that he or she is being asked to lead. If the champion doesn't care about the industry, this plan won't work. A few years ago one of my CPA clients wanted to develop a medical niche. I asked one of the firm's partners to lead the medical niche team because he was the only one left without anything to do. Big mistake. After about six months that niche had gone nowhere. After meeting repeatedly with the partner, I finally learned that he didn't like doctors. Rather, he really enjoyed working with the construction clients he had brought in. We decided he would instead lead a niche in construction. He committed himself to developing the niche and has attracted over \$1.5 million of new clients in just a few years. Liking the niche is fundamental to being a champion.

Assembling Clients under the Champion

At least 60 percent of the partner's clients should come from the industry niche. Many firms will have to adjust the compensation plan to reassign clients. Some firms will have to overcome the culture of eat-what-you-kill, so the champion can have this critical mass.

Lou Mills says of Moss Adams, "We are very niche focused in our firm. Instead of doing many things halfway, we focus on doing one thing extremely well. Our management decided that to be successful, we had to focus intensely. Many local firms say they are niche focused. I can tell you that when you dig into the numbers and you dig into the client relationships, they are not

really niche focused. They don't really allocate the clients in that firm to a specialist team. For example, in our firm I am responsible for the manufacturing distribution team. That means you are working primarily 75 percent of your time on manufacturing distribution clients."

Many firms have a culture that the partner who first worked with the client is the partner who should forever serve the client. But when you adhere to this philosophy, you are actually doing your client a disservice if one partner is championing the client's niche and has a deep set of skills in that area. You are also not doing what is best for your firm if you refuse to transition your client to the champion. For a niche program to work, all partners must work together.

Jeff Everly, whom we met in Day 4, says, "The key to our success has been that all banking clients are assigned to a team headed by Dave Frazier and me, and all medical clients are assigned to a team headed by Mark Rudolph. Several years ago our partners had to make this critical decision for the good of the firm. When you try to be all things to all people, you just scratch the surface. I'd rather us be strong in a few things than mediocre in many things."

If the firm's compensation system is based on a certain book of business, it is easy to develop a "bridge plan." A bridge plan will compensate partners who assign their clients to a niche specialist for several years. It will also protect the assigned partner. A good compensation system for owners of a CPA firm will minimize the impact of book of business and length of employment and will maximize productivity. In some firms partners with a large book who have been with the firm for many years actually strangle the firm's growth potential. To build a niche, you sometimes must give up what you have for what you could become.

Jim Belew says, "We reorganized our firm into service delivery units, or SDUs. The people in the SDUs perform most of their work with the industry clients in that unit. We had to make some choices for the good of the clients and the good of the firm. The choices were not always popular with members of our management team because they had formed good relationships with their clients. They felt an obligation to those clients and wanted to continue their good relationship. But when each person saw how much better his or her life would be under this structure, we all agreed to proceed."

Developing Deep Skills

Many people recognize that traditional services of CPA firms are becoming more of a commodity. If you are among those accountants who focus only

on the commodity side, you will be increasingly under both price pressure and the threat of losing your clients to someone bringing more value to them. In his book *Beyond the Billable Hour*, William Cobb presented a figure similar to the one on the following page.

At the low value-added end of the figure are traditional services, such as audits and tax compliance work. At the high end of the value curve are services such as estate planning, strategic planning, and technology consulting when they are performed in a unique way for a client. To provide these high-value services, the proactive CPA must invest in a deep set of skills, skills that are often beyond what can be learned from the state society's CPE programs. For instance, developing legal or insurance (Continuing Education-type) courses in estate planning will help you fashion unique, personalized services for your client.



Concentration is the key to economic results. Economic results require that managers concentrate their efforts on the smallest number of activities that will produce the largest amount of revenue.

—Peter F. Drucker¹

Communicating Your Niche Skills

To convince clients that you are developing deep skills, it is important to communicate about the niche. Regular contact with prospects and referral sources will keep you in mind. Bill Jenkins developed a strong commitment to educational programs at Kennedy & Coe a number of years ago: "We believe that education comes before consulting." His firm has made a commitment to three industry groups: financial institutions, manufacturing, and agriculture. He says, "In all three of these niches, our firm offers a variety of educational programs for our clients and prospects. We believe in investing our resources to help our clients succeed. That is our best source of new clients. Our firm has tremendous intellectual property in the minds of our partners. Demonstrating this through our educational programs is vital to our growth."

Greg Anton, whom we met in Day 11, says, "The real key for me has been the integrated series of communications my firm has allowed me to set up within the SEC community. People are invited to my seminars at the state society level. I make an attempt to personally meet as many as I can. After the seminar, I call those participants whom I think might be good prospects.

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We place them on our mailing lists for newsletters and so forth. I periodically send them a note or article.”

Summary

To have a profitable, enjoyable practice, you must offer superior skills to a clearly identified niche. Your prospects and clients must believe that you are a specialist with expert skills in their areas. Once you establish your expertise, then you must communicate it to prospects and clients. Niche specialization is the key to future success. I recommend that you get started now.