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The Intelligent CPA Firm

By Paul Gladen

About the author: Paul Gladen is President & Founder of Muzeview LLC, a market and competitive intelligence firm focused on the professional services sector. Paul has 20 years experience in professional services, including 14 years with Arthur Andersen where he was a partner in the Technology, Media and Communications Industry practice and a founding member of Andersen's Center for Research & Innovation. Paul is a U.K. Chartered Accountant. Paul can be reached at 212-665-0797 or paul@muzeview.com.

How intelligent is your firm? No doubt your firm is full of smart, experienced and well-qualified individuals, but does it have high levels of intelligence about the marketplace, its clients and its competitors? And, if it does, is it using this intelligence to drive firm growth and increase profitability?

Your answers to the following questions may indicate that your firm's intelligence capabilities are not as sharp as they should be:

I Have you ever lost a long-term client unexpectedly or lost out to a competitor you didn't even know the client was considering?

I Have you been "late to the party" in identifying new service opportunities or felt under-prepared to advise clients on hot and emerging issues?

I Have you been surprised by a client's reaction to a proposed fee or shocked by a senior recruit's compensation demands?

An army wouldn't go into battle without intelligence about its opponents or an understanding of the battlefield terrain. Major corporations approach the marketplace armed with in-depth intelligence about customer trends and competitor activity. In the same way, CPA firms shouldn't go into the marketplace without timely and insightful intelligence. Those that do so place themselves at a considerable disadvantage. They risk losing clients, missing engagement opportunities, losing talent, under-pricing services and having a mismatch between client demand and the availability of professionals to deliver client service.

Market and competitive intelligence provides firm management with the insights to make the right decisions that keep you on top of the market, ahead of competitors and lead to firm growth and profitability.

So what does market and competitive intelligence look like in a CPA firm, how is it gathered and how do you use it?

Market & competitive intelligence defined

Market and competitive intelligence is organized and analyzed information about your market and competitors. Intelligence can be wide ranging and encompass many different facets of the marketplace, clients and competitors. It can include analysis of areas such as:

- l Market trends and forecasts --geographic, service or industry specific

- l Pricing trends

- l Cost trends --particularly for compensation and benefits

- l Legal or regulatory issues and risks

- l Competitor moves, such as new service launches, entering of new markets, M & A or recruitment activity

- l Individual client plans or activities

- l New suppliers or supplier products and services

Intelligence is typically built up from the synthesis and analysis of many different pieces of information gathered from many different sources and using various methods. For example, intelligence about audit fee trends may be generated through all or any of the following sources:

- l In-house data on recent audit fee negotiations with current clients

- l Anecdotal information gathered by one of your partners at a recent state CPA society meeting

- l Comments from a senior hire from another firm

- l Articles in the business and accounting industry media

- l Surveys by CPA associations or research firms

Viewed individually, the specific pieces of data may be insufficient to draw any conclusions. Collectively, however, a pattern may emerge that prompts significant moves for a firm, such as entering a new market, exploring a merger, adjusting pricing or closing a practice area. For example, the data may indicate that pressure on audit fees is increasing (or reducing). Armed with this intelligence, firm management can evaluate the reasons for this, weigh the available options for remedying the situation and make any necessary decisions. In this scenario, the audit fee trend data may provide added incentive for investing in electronic workpapers that can help reduce audit costs. Other pieces of intelligence may not require action beyond watching an emerging situation. When you think about the potential decisions that can result from high-quality market intelligence, it becomes apparent that a firm with poor intelligence is at significant risk. A firm lacking effective intelligence may fail to spot and take advantage of new market opportunities or not respond quickly enough to deteriorating market conditions (See the sidebar "Upturn in Downturn Activity").

A little knowledge is a dangerous thing

The saying "a little knowledge is a dangerous thing" is especially true with respect to market and competitive intelligence. Suppose you learned one single piece of information about a local competitor. You discovered the firm recently hired a senior tax professional with significant expertise in an area which that other firm has not focused on before, but in which your firm is strong. It would be simple to assume that firm is planning to expand its services into this new area in direct competition to your firm. This news might trigger a whole sequence of events as your firm gears up to face this new competitive threat. But there may be other, less threatening explanations. The individual may have been hired for her practice leadership or industry expertise rather than her specific technical experience. Or perhaps the individual moved for personal reasons and has been willing to compromise on her career focus as a consequence --in which case, your firm's practice strength might convert this apparent threat into a recruiting opportunity.

Implementing a CPA firm intelligence capability

So how do you implement a CPA firm intelligence capability that will help you make informed decisions about your firm's direction and growth? An effective intelligence capability typically comprises the four following components:

1 Scoping

1 Information Gathering

1 Analysis

1 Action

Defining the Scope of Your Intelligence Capability

Just as a client engagement needs a clearly defined scope, so does your intelligence capability.

For example, are consumer trends in China relevant to your firm? What about new regulations in the construction industry? Without a clear scope for your intelligence capability, you risk gathering vast amounts of irrelevant information and creating a severe case of information overload.

Defining the scope of your intelligence capability is about identifying the markets, competitors, issues and trends that are relevant to your firm. It should at least encompass the following:

- | The client industries and sectors you serve
- | The services your offer
- | The geographic markets you operate in
- | The competitors you face in each of your sector, service and geographic markets
- | The primary operational elements of your business, such as your talent pool and suppliers --especially providers or technology, professional-knowledge resources and office space and facilities

For each area, you need to define the kinds of information you are interested in gathering. For example, with competitors, you might want to monitor news about client wins, new hires, marketing activities or office openings.

While "scope creep" is something you don't want on a client engagement --at least without being paid for it --with intelligence gathering, a certain amount of scope creep should be encouraged. This means expanding your scope a little beyond the boundaries of your current business. For example, if your firm is based in California, you may want to monitor what's happening in Oregon or Nevada. If you serve clients in the oil and gas sector, you might consider watching developments in the cleantech arena.

Monitoring activity outside of your current domain can alert you to emerging opportunities, as well as emerging threats. Often, the most dangerous competitors aren't those you are familiar with, but those that enter unexpectedly from different markets. Your next major competitor may be a tax boutique from Indiana or India. Your next client may be a solar or wind power business.

Another benefit of expanding your horizons is the potential for innovation. Many businesses, particularly those with a strong focus on innovation, cast their intelligence nets far and wide. They are looking for ideas and trends in other markets and industries that they can adapt and apply to their own industry. Just as the hotel industry has begun to borrow ideas from the airline industry about self-service check-in, perhaps accounting firms can learn something about client self service as they roll-out client extranets. Some law firms have spent time studying the hospitality techniques of hotel chains, such as the Four Seasons, in order to improve their client service.

Finally, it's important to keep your intelligence scope refreshed. As your market evolves and your business develops, hopefully as a result of decisions made based on firm intelligence, you will need to adapt and expand the scope of your intelligence gathering. As you enter new markets or develop new capabilities, you will need to keep abreast of developments in those markets.

Gathering market & competitive information

Once you've identified the areas you want to generate intelligence on, you need to establish a process for gathering market and competitive information. Most businesses will appoint a specific individual or team to have responsibility for market and competitive intelligence encompassing scoping, gathering, analysis and potential recommendations. Their role with respect to intelligence gathering will involve monitoring key media and online sources, as well as being the recipient of information gathered by others around the firm. As discussed earlier, the value in intelligence comes from its collective analysis, not from responding to one-off data points. The competitive intelligence manager or team will be responsible for identifying potential sources, monitoring those sources, collating all the intelligence gathered from the various sources and methods, and analyzing it. The information can come from a variety of sources and methods, including those in the accompanying chart.

Sources	Methods
Business and trade media	Published material (increasingly via online sources).
Current and prospective clients	Individual meetings and phone conversations.
Competitors	E-mail and other correspondence.
Suppliers	Events
Research organizations and think tanks	Other <i>ad-hoc</i> sources and observations—e.g., a competitor radio commercial or a call from a headhunter.
Government organizations	
Employees and recruits	
Trade and professional associations	

Gathering this information requires awareness, focus and discipline. Everyone in your organization has an opportunity and a responsibility to gather market and competitive data. A staff member may be the first to hear about a client's planned expansion to a new market. Your switchboard operator may notice a sudden rash of calls from recruitment firms. Your IT director may learn about a new software product that could enhance your service delivery.

Analysis of market & competitive information

Technology plays an increasingly important role in intelligence gathering. A wide variety of Web tools, from RSS to wikis and knowledge management and document management applications, exist to facilitate the tracking, gathering and organizing of information. Developing a competitive intelligence taxonomy that reflects the scope of your intelligence interests can also greatly assist the organization and analysis of your intelligence information.

Your intelligence manager or team will need to constantly filter, organize and interpret the information it receives. Some of this analysis will focus on pre-defined topics or areas. For example, your firm's management may want monthly updates on competitor activity. Niche leaders may want regular insights on industry trends and issues. Your intelligence team also needs to be on the lookout for emerging trends or outliers, providing an early warning system for changing market dynamics or competitive threats.

Acting on intelligence

Investing time and money in developing an intelligence capability also requires investing the time needed to evaluate the implications for your firm and taking appropriate actions. Different firms will take different approaches, but as a minimum, distributing a monthly intelligence report to your management team and devoting a part of your monthly management meeting to reviewing it are a good start.

Management needs to buy into the value of intelligence, the importance of tough decision-making and a certain level of risk taking. Rarely will management be provided with perfect information (if such a thing even exists) with which to make decisions on entering new markets, investing in new capabilities or adjusting fee rates. However, firms that make those decisions on the basis of a robust intelligence capability are likely to be right far more often than those firms making decisions based on instincts or anecdotes, or making no decision at all as they remain blissfully unaware that the market and competitive landscape has changed.

In a difficult and fast-moving market, establishing or enhancing your firms intelligence capabilities may be the smartest decision you can make.