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Identify the Good Clients & Fire the Bad Before Year-End & Busy Season

It's tough to fire any client—after all, many CPA firms struggled for years to have enough clients. And partners and staff often have longstanding relationships with clients.

But sometimes—just as in personal affairs—the relationship between a CPA firm and a client runs its course and is no longer rewarding to one or both parties. A good relationship turns bad, and what once was a good client becomes a bad one.

Bad clients do more than divert resources, annoy partners and staff, and slow or halve the flow of cash into the firm. They distract your attention—attention that needs to be centered on the firm's strategic plan and growth.

In these days of limited resources and ever-increasing workloads, it is very important that your firm put its valuable resources where they can do the most to achieve your strategic goals.

Just say no. The best way to make sure your firm avoids bad clients is not to take on those clients in the first place. If your firm doesn't have criteria for new clients as well as a process for reviewing potential clients, now is an excellent time to establish those parameters and systems before you are tied up with year-end and busy-season work.

Controlling intake allows the firm to better manage its resources and the service lines it offers to clients. It also prevents or minimizes having to

undergo the unpleasant step of disengaging from a client.

Understanding what the firm wants in good clients is a requirement for being able to prescreen potential clients. You will also be

able to sharpen your marketing focus on new areas to serve good clients; you will see the potential in such service to existing clients; and you will be able to measure your firm's expanded service to clients. (Other ideas on how to identify good potential clients are in the accompanying sidebar.)

Out with the old. The thought that you can and should trim the client lists is frightening for some firms. But taking charge of the current client list can mean a better one in the future, points out William Pirolli, partner at DiSanto Priest & Co. in Warwick, Rhode Island (wpirolli@disantopriest.com). Pirolli has written on the topic of firing clients and gave a presentation on it at the AICPA Practitioners Symposium in Phoenix.

Don't sit back and let bad clients continue to create problems for you, Pirolli stresses. Instead, use a take-charge approach, just as you do with other practice-management initiatives.

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Of course, you can't eliminate the wrong clients unless you identify who they are—and the right ones, too. Just as there is no one answer to most practice-management issues, here, too, the preference of partners and the firm will be your guide.

Take a look at your current clients and create groups to identify who the best clients are and the work you do for them, Pirolli suggests. The old 80/20 rule (80% of the work is done for 20% of the clients) will probably show up clearly when you do so.

Ways to divide clients into groups can include engagement size, type of work (audit, tax, etc.), and other natural identifiers. Consider, very simply, whether or not you like the client—consultant

David Maister believes that liking the client is a powerful factor in a good relationship. Another way to consider clients is their value as a future purchaser or as a referral resource for your firm.

Next, consider client demographics: size of the client organization by revenue, type of business or industry (manufacturing, construction, health care), type of work (A&A, estate planning, valuation).

Now comes the hard part: ranking your clients in descending order from the best or A clients to the worst or F clients. Pirolli suggests these very general ranking guidelines:

- **An A client** is usually on the 80/20 list. It is a well-established client, "buys everything you have to sell," and pays on time.

- **A B client** is growing, may need additional services in the future, and looks like it could become an A client.

- **A C client** will never need additional services. This client may be using compliance services only and pays on time. Your firm would be glad to take on more clients like this one.

- **An F client** could fall into any of the above categories, but this client may have challenges such as being high maintenance, abusive, or a bad payer because it refuses to pay on time or in full. F clients won't pay your firm what you are worth.

Before you fire the client. It is possible to rehabilitate clients or upgrade them to a higher level, Pirolli observes, adding that it is "cheaper to upgrade than replace" a client. Understanding precisely what it is that drives you crazy about a particular client is the first step toward considering whether the relationship can be saved.

Other steps that Pirolli advocates in the repair process are setting standards for the ongoing relationship and raising your fees as needed.

An F client that is habitually very late in payment, for instance, can be informed of new payment standards with a schedule plus your firm's explanation about why you are emphasizing prompt payment.

5 Questions to Ask Before You Retain a New Client

Know who will be a good client for your firm before embarking on a new client-CPA firm relationship. Chances are you will have a more productive and more profitable relationship with the client if you can obtain answers to these questions before the client hires your firm:

1. What are the company's financial status and structure? What are the client's strategies for short-term business and growth? Learn about any recent changes or challenges.

2. What is the company's market? Is it an industry that your firm focuses on or wants to be more involved in? What is the competitive situation for this company? What are the trends in that company's kind of business: mergers, technology changes, and others?

3. Where is the company going? What is the long-term view of the organization? Are these objectives areas in which your firm can offer help? What is changing at the company? Are these changes that your company has helped clients weather before, or will they present new challenges to your firm?

4. What does the company expect from its CPA firm? Those at the company who will work most closely with your firm's partners and staff should have a good sense of the kind of help they want and need. This is a good time to explore billing arrangements, since it is helpful to know if a new client will be interested in a set-fee or a value-fee arrangement.

5. What is the company's history with other CPA firms? Find out why the company is looking for a new CPA firm, what they liked and disliked about their current or former firms. This information can be very revealing about the kind of relationship you are considering.

AOMAR agrees that some clients can be turned from bad to good: Consider that some of the structures and processes you can use to rehabilitate a bad client may in fact be good for better managing the entire client base. These can include:

- **Price changes.** Set fees for run-of-the-mill engagement activities could be paired with higher-end value service pricing. Educating clients about how your pricing structure is changing is key. For instance, a client who wants your attention very late in tax season may need to pay a premium for that scheduling.

- **Reward good behavior.** The 1040 client who fills out your tax prep form or has one of their own surely deserves some sort of a reward for this behavior in contrast to the one who shows up with the proverbial shoe-box. Think about what is appropriate: For a prepared 1040 client, would a small discount be in order? An audit client who has set aside the correct files and assigned a staff person to work with your team should receive a similar reward for being prepared and allowing for a quicker and more orderly audit.

- **Use bad behavior as an opportunity to offer help.** The corporate client that is always late in paying may be careless and thoughtless. Or, that client may need help in its accounting practices. If it is a small business, it may welcome your firm's assistance in getting its books better organized and

its bills paid on time. Firms that provide accounting and small business services should be on the lookout for such opportunities (if this is not your firm, you may be able to refer the client to a firm that does offer these services to small businesses).

Clients understand that you are working with fewer resources and under greater time pressure nowadays since these problems face them in their own work: Use this to leverage behavior changes in bad clients and to let good clients know how much you appreciate them.

Make a clean break. Clients that your firm really dislikes or those that no longer fit your practice need to be pruned.

A letter of termination can be used to set forth the official fact that your CPA firm will no longer be serving the client. This approach is especially important if you are parting ways with a client mid-engagement. But it is also useful to have a record of the breakup, so make sure you include such facts as returning client information and meeting deadlines for legal purposes. You can have an in-person meeting with the client to break the news.

Emphasize that you believe the client would be better served by another CPA firm, and if you can, offer the names of several firms that serve clients in that particular market or firms of that size. □

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