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CPA FIRM STRATEGIC OUTLOOK

Staffing Leads Competitive Challenges—& CPA Firms With Strategic Plans Are Ready

How are CPA firms competing today? What are the top issues they are grappling with? To learn more about the strategic approaches that are helping firms succeed, we asked about competitive issues and strategies as part of our recent *CPA Firm Strategic Outlook Survey*.

While some of the competitive issues are no surprise, the ways in which firms are looking to compete offer fresh perspectives on the changing nature of the CPA firm marketplace—and how firms are getting to where they want to be.

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Retirement Is the Top PFP Concern

Personal financial planners, take note: Retirement is the number one PFP concern your clients are asking about, according to an informal survey at the AICPA 2007 PFP conference. Surprising finding: Those aged 25 to 34 are very much concerned about this issue, as are clients in all age groups.

CPA Firm Strategic Outlook

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Top competitive issues. We asked survey respondents to rank various strategic issues that affect competition in order of importance (see the tables). Not surprisingly, staffing issues were at the top. The most-cited issue almost across the board was shortage of qualified staff, named by 75% of survey respondents. A close second was staff recruitment and retention (72.7%).

While staffing issues were the leaders for firms in all revenue ranges, the rest of the top competitive topics identified tended to vary by firm size measured in gross fees. For instance, among the firms with fees of \$2 million or less, staff compensation was ranked third (46.8%) and succession planning came in fourth (31.9%). Firms earning fees ranging from \$4 million to \$6 million, however, rated succession planning as the second most crucial competitive issue (58.3%), followed by partner compensation (50%).

Among the largest firms (those with more than \$20 million in fees), half of the respondents chose succession planning, profitability management, and partner compensation as the issues next in importance after staffing. However, the firms with \$12 million to \$20 million in fees had somewhat different priorities: Staff compensation was cited by 55.6%, and profitability management and partner compensation were next in line, both at 33.3%.

When we look at the results by number of personnel in the responding firms, similar trends are apparent. Among the smallest firms (those with one to five people), staff compensation (42.9%) outpaces staff recruitment and retention (35.7%) in importance; this is the only group where staff recruitment and retention was not one of the top two issues chosen. Also of concern

to these firms are profitability management (cited by 42.9%) and partner retirement (42.9%).

For larger firms in terms of number of personnel, there are variances in the issues of secondary importance after staffing. Among the firms in the range of 76 to 100 persons, the issues that tied for third place were staff compensation, profitability management, and technology and the related infrastructure changes; all were cited by 37.5% of respondents. However, firms with more than 100 people identified fee pressures (cited by 66.7%), partner compensation (50%), and profitability management (33.3%) after staffing.

Addressing the issues inside the firm. CPA firms' increased use of strategic planning has led firm leaders to position resources to address competitive issues. Since staffing was the primary issue for most responding firms, most of the comments provided by respondents focused on how firms are working to meet the challenges it poses. Respondents made very clear that they are looking at more than filling desks. Instead, enhanced quality in recruiting, more attention to retention practices, and more training and use of technology for efficiency and productivity are now central strategic solutions, as well as ways to improve upon overall firm management.

Highlights from the comments by survey respondents about competitive strategies are presented here:

- **Plan to succeed.** A theme running through the responses is that firms are making a plan—and following through. A number of respondents described multi-pronged programs for addressing the leading questions of staffing, including hiring, retention, and staff compensation.

The director of administration for a local firm with fees in the range of \$4 million to

\$6 million and 44 full-time employees (FTEs) said the firm has a “new recruitment/retention strategy, along with a comprehensive talent-development and mentoring program.” The term “aggressive” related to recruiting appeared frequently, often in combination with other strategies, such as

the one in use by a local firm with fees in the range of \$2 million to \$4 million and 17 FTEs, according to its chief executive officer. His firm’s multipronged strategy includes: “Continuing aggressive recruiting, higher salaries, greater benefits, flex time, telecommute, outsourcing.”

Table 1. CPA Firms’ Top Competitive Issues, Overall and by Annual Gross Fees

	Overall	\$2M or less	\$2M to \$4M	\$4 to \$6M	\$6M to \$8M	\$8M to \$12M	\$12M to \$20M	>\$20M
Shortage of qualified staff	75.0%	66.0%	81.8%	50.0%	85.7%	81.3%	100.0%	100.0%
Staff recruitment and retention	72.7	61.7	69.7	83.3	100.0	81.3	88.9	75.0
Staff compensation	39.1	46.8	39.4	25.0	71.4	6.3	55.6	25.0
Succession planning	34.4	31.9	39.4	58.3	28.6	25.0	11.1	50.0
Profitability management	32.0	23.4	39.4	41.7	14.3	37.5	33.3	50.0
Partner compensation	31.3	27.7	30.3	50.0	—	37.5	33.3	50.0
Fee pressures	30.5	36.2	33.3	16.7	28.6	31.3	11.1	25.0
Technology and the related infrastructure changes	28.1	29.8	21.2	33.3	42.9	37.5	22.2	—
Partner retirement	27.3	27.7	27.3	25.0	14.3	37.5	22.2	25.0
Marketing	24.2	27.7	30.3	25.0	14.3	18.8	11.1	—
Greater client expectations	18.0	19.1	15.2	16.7	14.3	18.8	22.2	25.0
Expense management	11.7	21.3	12.1	0.0	14.3	—	—	—
Mergers/acquisitions	9.4	4.3	12.1	16.7	—	12.5	11.1	25.0
Other	5.5	2.1	9.1	8.3	—	—	22.2	—

(Source of tables: IOMA)

Table 2. CPA Firms’ Top Competitive Issues, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 75	76 to 100	>100
Shortage of qualified staff	57.1%	82.4%	78.6%	76.5%	59.1%	69.2%	100.0%	81.3%	100.0%
Staff recruitment and retention	35.7	52.9	85.7	76.5	72.7	84.6	88.9	87.5	83.3
Staff compensation	42.9	52.9	35.7	41.2	36.4	53.8	11.1	37.5	16.7
Succession planning	28.6	29.4	50.0	41.2	40.9	38.5	22.2	25.0	16.7
Profitability management	42.9	29.4	21.4	23.5	36.4	30.8	33.3	37.5	33.3
Partner compensation	21.4	35.3	21.4	29.4	31.8	38.5	33.3	31.3	50.0
Fee pressures	57.1	23.5	35.7	35.3	27.3	7.7	22.2	18.8	66.7
Technology and the related infrastructure changes	21.4	11.8	50.0	23.5	31.8	38.5	11.1	37.5	16.7
Partner retirement	42.9	11.8	21.4	47.1	18.2	15.4	44.4	31.3	16.7
Marketing	21.4	35.3	21.4	17.6	40.9	23.1	11.1	18.8	0.0
Greater client expectations	35.7	5.9	21.4	11.8	18.2	15.4	22.2	18.8	16.7
Expense management	21.4	29.4	21.4	11.8	4.5	7.7	—	—	—
Mergers/acquisitions	7.1	5.9	—	11.8	13.6	—	33.3	6.3	16.7
Other	—	—	7.1	5.9	9.1	7.7	11.1	6.3	—

The mix that is working for a local firm with 35 FTEs and \$2 million to \$4 million in fees was described this way by a shareholder: "1. Almost continuous advertising 2. Bonuses to staff for referrals of their friends/contacts. 3. Headhunters."

Several firms noted they are moving the search for qualified staff outside the local area as part of the staffing strategy. "[We are] expanding our recruiting process beyond our region," wrote the chief operating officer of a local firm with 93 FTEs and between \$12 million and \$20 million in fees. Other steps listed were: "Try to find new and innovative ways to increase work/life balance. Add flex work options."

Others said that their firms' plans involve a blend of recruiting and retention strategies and improved practice management. A typical plan from a local firm in the fee range of \$2 million to \$4 million and three FTEs was reported this way by a shareholder: "1. Improve visibility in community, staff party for interns, and young CPA events. 2. Close analysis and accountability with each client engagement and relationship—bill timely for services outside scope of engagement." A similar list of activities came from the managing partner of a local firm with 17 FTEs and \$2 million or less in fees: "1. Increased communication with staff and clients 2. Increased training of all team members 3. Constantly looking at and improving efficiency."

Good work habits as part of the overall plan are the focus for some firms. "The CEO and partners focus with key staff—constant attention to details and holding partner/staff accountable for results and adherence to policies, initiatives, etc.," wrote the CEO of a local firm with 50 FTEs in the fee range of \$4 million to \$6 million.

Still others favor improving the overall environment of the firm, like this managing

partner of a firm with 17 FTEs and \$2 million or less in fees who said: "1. Constantly be aware and attuned to what is happening in the firm. 2. Increase communication. 3. Make this firm a great place to work—where people want to be."

● **Recruiting programs.** A very popular strategy discussed by respondents, recruiting programs are where many firms are concentrating strategic planning and resources. A number of respondents cited developing closer ties with local colleges and universities, making hiring offers earlier, and expanding internship programs as ways to snag top talent earlier in the hiring process.

"We have stepped up our involvement with local colleges," wrote the shareholder for a local firm with 62 FTEs and \$8 million to \$12 million in fees. "We have appointed a partner to be the liaison with the two major local universities. We have more people involved in recruiting and we have increased the incentive to our staff for referring a person that is ultimately hired."

Getting the right hires—rather than just anyone—is central to the strategy of a local firm with \$2 million or less in fees and 15 FTEs, wrote the managing partner. "We are attempting a long-term solution by really pushing our intern program to hire at least two interns and then groom one of those as a permanent full-time hire," the managing partner explained. "We are committed to building from the bottom up. A qualified three-to-five-year CPA is impossible to find, so we have decided we need to emphasize on-campus recruiting and build relationships with professors. We've also established a much more formal hiring/screening process including personality profiling and skills testing to make sure that when we do hire, it's the right person rather than just a body to do the job."

Though it may seem to take a lot of guts

to let go of any staff right now, doing so may be necessary for successful long-term growth. "Constant recruiting and replacing bad staff for better staff, which will increase productivity," is the answer for a local firm with 10 FTEs and \$2 million or less in fees, stated a shareholder.

● **Training and improving existing staff.** Making the most of the people you have is how some firms are addressing their staffing concerns. The managing partner of a local firm with 68 FTEs and \$8 million to \$12 million in fees wrote, "More training and 'growing our own.' More systems and processes in place to support less experienced staff." Training is the answer for another local firm with \$2 million or less in fees and seven FTEs: "We have good people," wrote the managing partner. "They just are not where they need to be technically."

The overall issue of talent development is at the top of the list for many firms. The CEO of a regional firm with 233 FTEs and earning more than \$20 million in fees said his firm is making a "significant investment in talent development currently in firm (in terms of time of professionals and focus of leadership)." Another firm is taking a similar path: "[We are] currently identifying second-tier leader potential," wrote the chief operating officer for a local firm with 31 FTEs in the fee range of \$2 million to \$4 million. The firm is "providing nonequity partner opportunities, which can lead to equity partner status." That firm has also established a leadership development program for potential partners.

Sometimes the simplest strategy may be the best of all, as the managing partner of a regional firm with 67 FTEs and fees in the range of \$8 million to \$12 million wrote: "Listening to staff/employees to find out what they value and want and then finding a way to provide it."

● **Compensation issues.** Pay is always a competitive issue, but firms are now trying to work in performance and other considerations, as they struggle to stay current with market conditions.

Pairing recruiting and compensation is a common approach. A local firm with \$12 million to \$20 million in fees and 79 FTEs is using "aggressive recruiting of staff through recruiting bonuses and other mechanisms, specifically at the experienced manager/future partner levels," according to the firm administrator.

Pay for performance seems to be catching on as a compensation concept among CPA firms. "We have formed a compensation committee that has gathered materials from our accounting affiliation group; we are discussing the behaviors we want to reward and which to punish and are trying to design a formula that accomplishes that," wrote the shareholder with a local firm with \$8 million to \$12 million in fees and 62 FTEs.

It is not just larger firms that are considering pay for performance. One local firm with six FTEs and up to \$2 million in fees is creating "a compensation model based upon the efficiency and effectiveness of team members," wrote the managing partner. "[This will] give them the opportunity to earn more by taking the initiative."

● **Marketing to staff.** "[We] treat staffing as though it were a marketing issue," wrote the firm administrator for a local firm with 20 FTEs and \$2 million to \$4 million in fees, summing up the approach of many survey respondents.

Some plan to take a specialized marketing route: "We will focus more marketing on our construction niche in order to make it the best in the area," said an owner from a firm with 43 FTEs and fees of \$6 million to \$8 million.

Others zoom in on why their firm is a special place to work. "Advertising what makes our firm a unique opportunity compared to the competition's approach to staff and work/life issues," is the strategy for a local firm with \$12 million to \$20 million in fees and 79 FTEs, wrote its firm administrator.

● **Technology help.** Paperless and other technology initiatives are increasingly seen as ways to boost efficiency and help fill staffing shortfalls.

"We have made the switch to the paperless environment; we will become more proficient in using it to be able to complete engagements quicker, which will lead to greater profitability," explained an owner from a regional firm with \$6 million to \$8 million in fees and 43 FTEs.

Even the smallest firms are taking advantage of the benefits of technology. The shareholder of a local firm with three FTEs and \$2 million or less in fees reports using classes on paperless issues, setting up a Web site, and consulting with a computer specialist. "[I'm] learning to better use what I already have."

Facing the competition. With strong plans to attack internal issues, firm leaders have also given a lot of thought to how they will compete with other CPA firms. The most frequently cited tactics are quality, value, relationship building, and marketing for more visibility.

"[We are] branding who we are and marketing it appropriately," wrote the chief operating officer for a local firm with 86 FTEs in the fee range of \$12 million to \$20 million. "Ensuring what we do best is what is best for our clients today and in the future," the COO noted, as is "continuing to evolve in our service area to exceed our clients' expectations in the future—always think five steps ahead and anticipate the next move before the client asks for it."

Such emphases can help local firms to shine when they compete for work against regionals or even Big Four firms. "We try to provide better service and more contact with partners than the regionals can provide" said the chief operating officer of a local firm with \$2 million to \$4 million in fees and 31 FTEs. That firm also tries to "maximize partner and corporate reputation for excellence [and] increase [our] corporate presence in the communities we serve."

Some prefer simply to focus on what they do best. "[We] provide better and more timely services, caring about our clients and their businesses as though they were our own business," wrote the managing partner for a local firm with 17 FTEs and \$2 mil-

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AOMAR Calendar

Talent Management Strategies Conference, San Diego, April 18-19. Contact: The Conference Board, 212-759-0900; fax: 212-980-7014; www.conference-board.org

Leadership Development Conference, New York City, May 10-11. Contact: The Conference Board, 212-759-0900; fax: 212-980-7014; www.conference-board.org

National Business Valuation School, New York City, May 7-11; Lewisville, TX, Aug. 20-24. Contact: AICPA, 888-777-7077; www.cpa2biz.com

A Conference for CPA Firm Leadership, Las Vegas, May 16-18. Contact: Kentucky Society of CPAs Educational Foundation, 502-266-5272; kycpa.org

Post Merger Integration Conference, Chicago, May 17-18; San Francisco, June 19-20. Contact: The Conference Board, 212-759-0900; fax: 212-980-7014; www.conference-board.org

National Conference on Employee Benefit Plans, New Orleans, May 21-23. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

AICPA Practitioners Symposium, Phoenix, June 4-6. Contact: AICPA, 888-777-7077; www.cpa2biz.com/conferences

AAM Summit 2007, Savannah, GA, June 6-8. Contact: Association for Accounting Marketing, 816-221-1296; info@accountingmarketing.org; www.accountingmarketing.org

NACVA's 14th Annual Consultants' Conference, Washington, DC, June 6-9. Contact: National Association of Certified Valuation Analysts, 801-486-0600; www.nacva.com

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lion or less in fees. The firm also stresses "consistency in the individuals working on our clients' engagements" and reports they have "very low turnover."

That kind of emphasis can come in handy when it is time to prepare proposals. "Know the competition and what they are best at—prepare our proposals to focus on what we do best," said the managing partner for a local firm with \$2 million to \$4 million in fees and 14 FTEs.

Other firms are working to emphasize a collegial approach to the competition, hoping to create partnerships for work and staffing. "We have assigned partners to be liaisons to each of the Big Four firms," wrote a shareholder at a local firm with \$8 million to \$12 million in fees and 62 FTEs. "We hope that after the new staff have been there for two years and want a different experience, they will refer them to us, or staff will know about us. In addition, we think we can [obtain] referrals of clients that the Big Four don't want."

CPA firms have always been about relationships, and this may be the most competitive strategy of all. As a partner with a local firm with 80 FTEs and earnings in the \$12 million to \$20 million range put it: "Build better relationships with our clients by listening more to their needs/wants/problems and timely delivery of our services."

For more information. More highlights from the *CPA Firm Strategic Outlook Survey* will be published in future issues of AOMAR. Information about the survey appeared in March AOMAR ("CPA Firm Strategic Outlook Survey Vital Statistics," page 6). Complete survey results will be available for purchase in a forthcoming book from IOMA. □