

Laissez Les Bon Temps Roulez

UNPRECEDENTED OPPORTUNITY

We live in an age of unprecedented opportunity right now. Yes, you read that correctly—unprecedented opportunity. Of course, we've seen some interesting economic times in the last year or two, and in some segments and some markets, the recovery is slow to start yet. But the conditions we've seen create a discontinuous change—something that doesn't just incrementally differ from what we've been seeing and doing, but exponentially differs. It is a game changer. And with that discontinuous change comes many opportunities to improve our organizations, perhaps in ways we couldn't even imagine prior to this.

Over the last several years up until recently, business had been good for most CPAs. When business is good, as our Cajun friends would say, "Laissez Les Bon Temps Roulez," or Let the Good Times Roll! So when the good times roll, we can get away with inefficiencies and poor practices, and still make a nice profit. We can let some of our variable costs start behaving like fixed costs, let overhead creep up, and still make a nice profit. We can overlook mediocre performance of some or many people and still make a nice profit. I could go on, but you see where I'm going with this. This is not the case when we encounter more difficult market conditions, with fewer opportunities for new work and potentially lower margins on revenues. In fact in slower times, our bad habits that built up during the good times are magnified. This is both good and bad. Bad because we really can't afford these bad habits now (and probably really never could), but good because we can now easily see them—they're like red flags waving at us.

Immediate opportunities abound, and many, if not most, of you have taken advantage of some of these opportunities by now in your companies:

- Cutting costs
- Showing marginal clients the door
- Getting rid of unprofitable lines of business, product or service offerings
- Enhancing business development and marketing efforts

Longer term opportunities which you can begin working on right now might include:

- Revisiting your business model
- Looking at process redesign or improvements
- Better development of your people

SOME IMMEDIATE OPPORTUNITIES

Cutting costs

Over time, costs creep up, often without any increase in the volume of business. Costs that were once considered highly discretionary somehow attain the status of sacred cows and continue on when they should have been cut back. Costs that were more or less variable and went up and down with changes in business volume somehow start behaving more like fixed costs. People with normal or adequate performance continue to get cost of living increases and often end up being paid in excess of what the position is worth or in excess of the value they bring to the table. People with mediocre performance are kept around because there's too much work to let them go. The price of just about everything continues to increase over time.

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Cutting costs could be, and has been in fact been, discussed at length in a variety of other articles and venues. Suffice it to say at this point that, if you haven't already, you must resize your overhead to match your operations. If your business has volume has decreased, you need to cut your overhead back to what it should ordinarily be for a lower level of volume. To do otherwise is playing Russian roulette with your business. Where should the cuts occur? The answer to that question is another question: Where are most of your costs concentrated? The majority of your costs in a professional service business are in labor, so that's a primary target for cuts. And how about the timing of these cuts? Many small to midsize CPAs wait too long and don't cut deeply enough, and they suffer severely for it. Take advantage, if you haven't already, of the game-changing conditions, to make those cuts you've known you should make all along.

Showing marginal customers the door

Even in good times, we should not be doing work for marginal clients—the clients who pay late, argue about prices and change orders, don't hold up their end of the deal, never seem to be satisfied, (and usually don't generate much, if any, profit for the firm.) In the new economic reality, we clearly should not be working for people who present too much risk for the reward and/or don't have any profit potential for our business. When times are tough, it can be difficult to run off any clients. But can you afford not to make changes if an account is not profitable? Can you afford to be distracted by this type of client and not provide the level of service and attention to others who are critical to your business? Here's an opportunity to get rid of your worst client(s).

Getting rid of unprofitable lines of business, product or service offerings

Have you been trying to make money in some line of business, or product or service outside of your core that just never seems to work like you'd anticipated it would? Are you trying to build a practice within a practice that is not synergistic with your strategy and the rest of your offerings? Have you attempted some projects outside the scope of your normal work, with less than stellar results? For any line of business, type of service or type of product, does the bottom line justify the effort and risk? If not, what can you do to make it work and make it work fairly quickly? Absent any good answers to these questions, the next question would probably be, "How do we wind this down and move on?" Re-evaluate all of your offerings and make those needed changes now.

Enhancing business development and marketing efforts

When business is good, less attention is often focused on business development and marketing efforts in many CPA firms. In fact, up until the last couple of years, many small to midsize firms were struggling to find the capacity to keep up with the demand they had. However, unless you have all of the best clients you want right now, you need to be developing business and marketing to upgrade your client list. Similarly, unless you firmly believe that none of your clients will ever leave for whatever reason (death, sale or merger, relocation, to name just a few), you need to be actively marketing your business. And this is as true for peak cycles as it is for recessionary cycles. And of course, in slow times, if you are not ramping up your marketing to create more chances for prospects to find and hire you, the results will be predictable, but not pretty. Take the time now to create and implement a consistent and effective marketing and business development plan. Hold your people accountable for results under the plan.

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SOME LONGER TERM OPPORTUNITIES

Revisiting your business model

By “business model,” I mean the overall approach you use to create value and generate revenues and profits from the resources—people, processes, capital—that you bring to the table. It involves either stated or implicit assumptions about who your market is comprised of, your specific value proposition for those customers, your strategy to deal with competitors, what you will do in-house versus outsource, and your cost and profit structure. The business model you used when you first opened the doors may be just as viable today as it was then. On the other hand, it may not be as relevant as you might imagine. Given the current and foreseeable market conditions facing your company, should you change your business model? For example, if you presently are outsourcing an extremely high volume of some service, such as pension plan audits, or business valuations, should you look at vertically integrating and bringing the service inside the firm instead of outsourcing it? If you presently are performing certain activities, would you benefit from outsourcing them due to the relative frequency of the work, the specialized knowledge required or profitability of it in relation to the risk assumed? (These questions are shown as simply some examples and are not meant to indicate the desirability of any these approaches.) Your business model choices will be unique to your organizational strengths and weaknesses in the context of the driving forces affecting your business now and in the foreseeable future. Take the opportunity now to take an introspective look at how you generate value, revenues and profits.

Looking at process redesign or improvements

When times are good, some firms make money in spite of themselves, and in spite of inefficiencies in the way they do things. Inefficiencies typically involve such things as the need to redo work that was conducted improperly in the first place, wasted time waiting for people to perform some step in the process at any particular time, wasted time and effort moving files around, etc., to name just a few examples. When business slows down, clients put pressure on pricing and fees. Slower times generally result in smaller margins. In order to have any hope of staying competitive, besides cutting overhead, a CPA firm needs to look at driving out waste and inefficiencies. Current market conditions present an opportunity to take a look at tightening up work processes, from bidding work to delivering the end product. Where are you wasting time and money in your daily operations?

Better development of your people

I have saved what I consider to be the best for the last in this discussion—developing your people. In one CPA firm after another, I hear the owners telling me that some of their key people just don’t get it, or that their next tier of leaders isn’t as skilled as the group should be. We have a saying in our firm: If the only person you can make better, faster and stronger is yourself, than you’re really not worth much to the company. As business continues to evolve and become more complicated and sophisticated, the intellectual capital you create in your company is your biggest, most valuable asset. Yet we continue to see CPAs who don’t want to spend the time to develop their people and create more firmwide intellectual capital. These partners and managers often say, “But if I spend this time and money training them now, they may end up going to work someplace else.” Our retort is to ask if the CPA would prefer to have a trained person in his/her employ for a while, or to keep an ignorant, untrained person around instead.

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I often hear CPAs exhorting their people to “run the jobs better,” or to cut costs or improve profits, in general terms. Typically, most mature adults want to do the right thing. Most of your employees want to run the jobs better, cut costs or improve profits. They may not be doing so for one of two reasons. The first reason may be that they simply don’t want to do some part or piece of the work—it’s unappealing to them and other tasks or activities are more fun for them to do. We all know that, no matter how good a job is, there’s usually at least 10% of it that is the equivalent of getting a tooth pulled without Novocain. Yet this 10% of the work still needs to be done and *you* need to see that it gets done.

The other reason people may not be performing to your expectations (assuming you’ve set clear expectations to begin with) is that they don’t know how to run the jobs better, cut costs, or improve profits. In either of these two cases, simply exhorting them to do better, making speeches—whether motivational or scolding in nature—will not improve them or their performance. And it will not improve your peace of mind, your disposition or your firm’s bottom line. Without more detailed involvement on your part at least for a while, the work won’t get done if they don’t know how to do it (or if they don’t know how to do it to your expectations.) It will take your time and effort, and continuing interaction, to see that the employee performs to expectations and in the process becomes better, faster and stronger.

Our people are called human “resources” for a reason—yet too many CPA firm owners view them as human “costs,” and in doing so they try to minimize the financial costs to the company, which often is the corporate equivalent of cutting off one’s nose to spite their face. Look at it this way: If you don’t develop your people and make them better at what they are doing, you will have a difficult time finding success in *any* efforts to enhance business development, revise your business model, or improve your processes. You can have the newest, most up to date equipment and facilities, and you can have some reasonably sophisticated processes. Without talented people, none of the rest of these matter much—you need talented, engaged people to make all of the rest of this work. Simply telling them to do better is not going to grow your people’s skills or result in long-term motivation. Your active participation with your people and your investment in them, properly directed, will make a positive difference.

People management is a skill—not an inherent personality trait or inherited ability—it’s learnable. But as leaders, it’s up to CPAs to learn to make the most of their biggest resource—take the opportunity now to learn to be a better leader, to get the most out of your investment in your people and improve the long-term success and value of your firm.

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