Practicing CPA on developing and marketing services: a collection of articles from the AICPA private companies practice section's newsletter

American Institute of Certified Public Accountants. Private Companies Practice Section

Graham G. Goddard

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The Practicing CPA on Developing and Marketing Services

A Collection of Articles from the AICPA Private Companies Practice Section's Newsletter
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Edited by Graham G. Goddard
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The 1990s have brought unprecedented change for the accounting profession. Changes in technology and in consumers' and clients' needs affect the demand for traditional services and hasten our development of new ones. The pace of change will continue unabated in the years ahead, and competition—with other accounting firms and with nonaccounting firms—will intensify.

As clients have become more knowledgeable, they have become more demanding, and their long-term loyalty to an individual firm cannot be assumed. The development of new services and the adoption of successful marketing strategies and selling techniques are essential if firms are to survive and prosper in the years ahead. The Practicing CPA on Developing and Marketing Services will be a valuable resource in this regard.

The Practicing CPA was authorized by the AICPA board of directors in 1977, largely as a result of suggestions received from members attending local practitioner seminars and others who represented the interests of members in smaller CPA firms at the Institute. From the beginning, the focus of the publication has been on local firms.

Most of us in local and regional firms appreciate The Practicing CPA's nuts and bolts advice and easy reading style. Rarely is there an issue that does not contain at least one helpful idea for our individual practices. This has been particularly true the last few years as we began developing new services and implementing concepts of marketing and selling them.

This collection of articles on developing and marketing services into one comprehensive volume will eliminate searches for past articles which we need to review for ideas. The Practicing CPA on Developing and Marketing Services will be a valuable reference for all local and regional firms.

—J. Mason Andres, CPA, Thomas and Thomas, Texarkana, Arkansas
In November 1977, the AICPA commenced publication of a monthly letter for local practitioner members. The Practicing CPA, as it became titled, was to have a strongly practical orientation and a focus on such matters as practice management and the practical application of professional standards.

In August 1991, the private companies practice (PCP) executive committee assumed financial responsibility for The Practicing CPA to maintain its status as a stand-alone publication in the face of Institute cost-cutting measures. Since that time, the private companies practice section (PCPS) has funded the publication and distribution of The Practicing CPA to all firms and members who request it. The publication's focus has remained the same with the addition of items on PCP committee activities (such as the technical issues committee) that are of interest to everyone in public practice.

Articles on developing a variety of services and on marketing services, in general, have been prominent features of the publication over the years. Reflecting the experiences of successful local practitioners, the ideas of advertising, public relations, and marketing executives, and the expertise of consultants to the profession, the articles contain a wealth of practical information.

Many practitioners have written to tell us they use Practicing CPA articles to stimulate discussion at partner retreats, others find the articles valuable as reference when planning various firm programs. Requests for back issues are frequent.

A CPA firm can no longer assume its reputation assures prosperity or even survival. In today's highly competitive environment, practitioners must consistently develop new services and aggressively market them to gain an advantage. This is where The Practicing CPA on Developing and Marketing Services can help. This volume is a collection of articles dealing with the development of specific services and marketing and selling services that have been published in The Practicing CPA from November 1977 through December 1996.

In order to increase the publication's usefulness, the articles have been arranged into two parts of four (services) and four (marketing) sections each. Where possible, chapters on related topics are grouped together and follow a logical sequence. Because some of the ideas expressed in an article often extend beyond one narrow topic and sometimes refer to articles in other chapters or to other Practicing CPA material not included here, cross-references have been retained where appropriate. (Professional standards mentioned may become superseded.) Most of the articles have a byline. Those that don't were written by the editor. Brief synopses of the chapters follow.

PART I—SERVICES

SECTION 1—BUSINESS CONSULTING NICHE

General
"Consulting: Its Time Has Come." The first article discusses why traditional services have become commodities, and suggests that consulting will enable practitioners to combine such products with advice, and have exciting and profitable new services to offer. Other articles discuss what is needed to deliver consulting services, how to give real help to clients by understanding what they need, and how to develop the necessary skills.
Business Planning
This chapter looks at the need to assist small business owners manage their operations. Lack of planning and budgeting are just two of the problems discussed. Some basic tools for business guidance are included.

Bankruptcy Practice
These two articles discuss some of the practical issues CPAs should know about the U.S. Trustee System. They cover applications for the appointment of professionals, and duties in bankruptcy, fee applications, and appearing as a witness in court.

Business Valuations
Valuation services are a fast-growing area of practice. Standards and practices, and various valuation methodologies are discussed, together with some ideas on setting appropriate fees.

Client Retreats
Much as a partners’ retreat can be an effective method for enhancing communication and bringing about constructive change in a CPA firm, so can the technique be useful to clients. Ideas for selling the idea to clients, and suggestions on acting as a facilitator, and on planning and conducting the retreat are presented. Some agenda items for improving the client’s business are included.

Computers
Computer technology may be constantly changing, but the keys to successful computer consulting don’t date, and many of the reasons to recommend use of a low-cost accounting package instead of an expensive one remain valid. Here are some ideas.

Family Business
Family-owned businesses can be particularly challenging to professional advisors because of the emotional aspects and difficulties in serving both the business and the family. Succession planning is an issue, generational problems can arise when either the business owner or the CPA retires, and family conflicts over money are frequent. Suggestions for dealing with these sensitive matters are in this chapter.

Productivity Improvement
The two-part article in this chapter describes in detail how to conduct an operational audit to improve productivity in the white-collar arena. Ideas are offered for defining the problem, developing alternatives, and implementing the solution.

Profitability Improvement
This chapter starts with an article on helping clients survive an economic downturn. From there, ideas are presented for giving cash-flow help to clients, seeing if there is a logical explanation for the net profit or loss, and helping them develop an effective cost-control system. The chapter ends with an article on helping clients who need a rapid improvement in profitability.

Section 2—Industry Niche
The five articles in this section deal with providing services in these areas: government work, health care, law firm management, and telecommunications. All seem to offer growth potential.
SECTION 3—PERSONAL FINANCIAL PLANNING NICHE

General
A number of firms began formally offering personal financial planning services a few years back but were unsuccessful. Now, various factors are fueling demand for PFP services. These articles describe how to provide the services and how to avoid the pitfalls. They also give some insight into needs, and suggest ways to market yourself as a financial planner and provide special services to older clients.

Estate Planning
CPAs have a vital role to play in estate planning. The first article discusses what the role should be, describes some services to offer, and suggests ways to increase your estate planning involvement. The other articles contain ideas on building an estate planning practice and on estate planning opportunities.

SECTION 4—TAX RETURN PREPARATION
An article that appeared in the first issue of what was to become The Practicing CPA begins this section. Although the way tax returns are prepared and filed constantly changes, many procedures, solutions to seasonal problems, marketing opportunities, and suggestions in these articles remain helpful. The last article deals with post-tax season analysis.

PART II—MARKETING

SECTION 1—APPROACHES TO MARKETING AND SELLING
What is marketing? Marketing is put in perspective, and the various ways and secrets of the best business generators in the profession are disclosed. Other articles explain why most sales training doesn’t work and give some tips on how to sell.

SECTION 2—COMMUNICATING EFFECTIVELY
There are ways to communicate with other people that enhance your new-business development efforts. This chapter deals with making a good impression, how to anticipate and plan the conversation with a prospective client, how to overcome objections to using your services, and how to close the sale. It concludes with advice on designing and producing a client newsletter that is effective as a marketing tool and presenting seminars that enhance your business development efforts.

SECTION 3—PAYING ATTENTION TO CLIENT SERVICE
This chapter explains 1) how to manage clients’ expectations and 2) how to assess client satisfaction. It goes on to compare client service with service in a five-star restaurant, and explains how to create an overall sense of care and well-being on the part of the clients.

SECTION 4—DEVELOPING NETWORKS, REFERRALS, AND RELATIONSHIPS
Effective networking requires spending considerable time developing new contacts and managing old ones. These articles explain how to do it. They discuss how to develop referrals naturally, increase referral business, and turn leads into clients. Practice development begins and ends with relationships. The section tells you how to build them.
Note of Thanks

*The Practicing CPA* has been well received by practitioners since the first issue in 1977. This is due to the people in all aspects of public practice who have been willing to share their ideas and experiences. There are too many to mention here, but you will find their names in nearly all the articles that have been reproduced in this volume. There are other people whose names don't appear in the text but without whom these articles could not have been compiled into a single source. Their names appear below.

We believe *The Practicing CPA on Developing and Marketing Services* will provide an invaluable reference to which practitioners will turn again and again. We express our thanks to all who have contributed their time and talents.

—Graham G. Goddard, Editor, *The Practicing CPA*, AICPA, New Jersey

**AICPA Acknowledgments**

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CONSULTING: ITS TIME HAS COME

What do audits, financial statements, and tax returns have in common? In addition to serving as the backbone of our profession, they have become commodities in the eyes of the public. What happens to a commodity when it is left to stand on its own merits without any value added to it? Price becomes the most important buying criterion.

Many traditional CPA practices have been forced to deal with this issue in the audit marketplace, where severe price discounting battles have been fought. Other firms have begun to experience fee pressure on services such as financial statement and tax return preparation.

Why have our services become commodities? One reason is that our profession has done a great job of selling the value of a CPA's education, training, and skills. The public tends to judge us as a profession, however, rather than individually. As a result, people often generalize that all audits, financial statements, and tax returns are basically alike, as long as the preparer has the letters CPA after his or her name.

This is where consulting comes in. Consulting utilizes the CPA's knowledge of a client's business in order to offer advice or lend assistance in maximizing the use of existing resources.

Now let's look at our profession, where, because of the abundance of quality computer software, financial statements and tax returns are becoming easier to produce. In fact, many business owners will purchase one of the many tax software packages available and complete the tax returns themselves.

The way to combat such a situation is to offer a service combining the commodity product with advice based on your personal knowledge and experience. Consulting is the forum that enables you to deliver that advice.

Even if you are regularly advising your clients, if the service is not distinguished as consulting and marketed as such, it will prove to be of little value. The American consumer has grown accustomed to being able to choose between goods in a stripped-down, bare-bones package, and those in a format bursting with extras. While our profession provides this delineation of services, it seems we confuse the consumer by referring to both bundled and unbundled versions identically.

Let's say one of your clients calls several times during the year with tax questions. If you are like many CPAs across the country, you will record that time and bill it when you deliver the tax return. The bill will often only state, "Tax return preparation."

So, here is an example of where consulting services were appropriately delivered, but were not promoted in a manner that created a distinction between the commodity and the consulting service. It is this distinction that gives you a competitive edge for building client loyalty and generating new business.

In theory, it is simple to incorporate consulting into your daily routine because, for the most part, we are discussing a change in philosophy rather than a change in work habits. In practice, however, there are always unexpected stumbling blocks. These obstacles vary, depending on the skills and personalities involved. The good news is that they can be overcome. Following are three ingredients which influence the successful formalization of consulting.

Management commitment

The firm, or at a minimum, the management team, has to believe in and be committed to the transition to consulting. The advantages of committing to this strategy vary among organizations but typically fall into one or more of the following categories:

- Maintaining and protecting the client base.
- Expanding the firm's current offerings.
- Generating additional revenues.
- Repositioning the firm as business advisors.
- Meeting client expectations.

How can the implementation of a consulting strategy accomplish any of these goals? Well, first of all, they work hand-in-hand with each other. The premise behind all of them is to expand your services so as to increase your ability to address clients' concerns. By providing more management assistance, for example, you strengthen the relationship between client management and your firm. By stretching your role beyond traditional services, you become more than a financial advisor—you become part of a team that is focused on the company's survival and prosperity. Your knowledge and skills play a much larger role. In fact, client management will increasingly rely on your judgment.

Consulting not only helps you take care of clients but helps you take care of your firm, as well. As you develop and maintain stronger ties with your clients, they begin to count on you for advice in a number of different areas. I know this philosophy sounds self-serving, but it is also in the clients' best interests. Many of us have had clients who, because we were not paying close attention to their needs,
hired another firm to perform a specialized service such as strategic planning, marketing consulting, or operational auditing. And unfortunately — and all too often — several thousand dollars later, they were left with a document that will forever sit and collect dust. The lesson here is simple. Continually meeting the needs of clients is as rewarding to the practice as it is to the clients.

The profession is changing
There are dramatic changes occurring in our profession. Consulting, and how we incorporate it into our daily routine, is a way to respond to the new direction. One change is that because of the increasing presence of in-house CPAs, clients are performing more of the traditional accounting work. The outside CPA is left with a diminished scope of service.

This brings up another issue: CPAs need to change the way services are delivered. Clients want our planning, advisory, and visionary skills, rather than our ability to process work. We need to unbundle the way we package service delivery, and allow clients more flexibility in service choice.

Consulting is for everyone
The third ingredient in the successful implementation of consulting is a clear understanding that consulting is a service every member of your firm should offer. It is not just for a select few. Certainly, the more experience a CPA has, the greater the latitude available in the services to be offered. But in today's struggle for distinction, no service should be delivered without a consulting component.

If you prepare a tax return, for example, then tax, retirement, and estate planning should be offered as well. If you perform bookkeeping services, no statement should be delivered without spending time with the client reviewing the data.

Consulting opportunities can be enhanced with
☐ Management commitment.
☐ A belief that this strategy is required to stay in step with the profession.
☐ An understanding that the maximum return on investment will be earned only when everyone in the firm incorporates a future-focused attitude toward the client work they perform.

While this transition demands a great investment of time and energy, the rewards far outweigh the costs. Consulting provides you with a marketing platform, as well as new, exciting services to offer. It forces everyone in the firm to not only analyze past client relationships, but also future needs. Consulting creates loyalty, enhances client satisfaction and retention, and results in increased revenues per client. All in all, it provides a solid foundation on which to position your firm for the 21st century.

— by William L. Reeb, CPA, Winters, Winters & Reeb, 8310 Capital of Texas Highway, Suite 270, Austin, Texas 78731-1022, tel. (512) 338-1006
QUALITY CONSULTING SERVICES: ARE YOU PREPARED TO DELIVER?

Fifteen years ago, I began my current pursuit to help CPAs deliver quality consulting services beyond the ones they usually offer. Practitioners have always received requests for such services, but for a variety of reasons they have done less than they might have to encourage such assignments. Let's briefly explore whether there are any compelling reasons in favor of providing what have come to be known as "type 2" services.

In today's professional world, it would appear that competitive pressures, firm growth desires, and partner and staff demands for increased compensation would be reasons enough to pique the imagination of every practitioner to consider such services. If that is so, what then might be holding us back? Are we perhaps too good as Certified Public Accountants (type 1 service providers) and not good enough as Competent Professional Advisers (type 2 service providers)?

Management consulting services generally are defined as advice and assistance on a wide variety of organizational activities provided by independent qualified professionals to management. The recently issued Statement on Standards for Consulting Services describes these services in some detail.

Do you think you qualify as a consultant to management? The AICPA's newly revamped management consulting services (MCS) division has issued more than 30 practice aids on specific consulting services that might help you decide which services you can provide or can become competent to provide. I have provided a sample format for developing a mission statement (a broad outline for developing a consulting services capability) and a sample job description for the manager of the MCS department (see exhibits on page 3 and below).

Appropriate ways to sell these services
One focus of the MCS approach is to identify client problems and propose solutions to them. This involves reading client financial statements and the supporting data and files with more than an accountant's eye. It requires looking for both positive and negative trends, weaknesses in the accounting, financing and operations systems, and inadequacies in the compensation system and personnel policies. Once a problem is identified, you can inform management and suggest that you be given the opportunity to propose a remedy.

Firms taking the above approach to selling MCS services report high client acceptance rates. Furthermore, this direct approach avoids the high costs associated with brochures, mailings, telemarketing, and advertising.

One last thought. Clients are often looking for help with problems but are simply unaware that their CPA firm is capable of providing such assistance. So what could be a more effective way of selling quality consulting services and enhancing your image than to spend time discussing a solution to a problem with a client. Many small businesses need such help, and you can be quite successful as an MCS practitioner if you keep in mind that CPAs are business problem solvers.

—by Sheldon Ames, CPA, 3530 Cummings Road, Cleveland, Ohio 44118-2625, tel. (216) 932-9136, FAX (216) 932-1908

Exhibit 1
Sample Job Description:
Manager—MCS Department

Institute and maintain the staff/partner training program to enable MCS engagement recognition.

Devise and develop a client MCS needs program.

Research and recommend appropriate MCS resource library.

Develop an inventory of MCS skills among partners and staff.

Oversee client and potential client proposals.

Supervise work programs and job budgets.

Assign MCS skills as per skills bank developed above.

Exercise engagement quality and time controls.

Perform job review techniques.

Research and develop a program of client and public relations to enable wide range dissemination of firm capabilities.
Exhibit 2
Quality Consulting Services: Is Your Firm Prepared to Deliver?

**Mission Statement:** To create a profit center to deliver quality consulting services to our clients
Our code name is TOPS: Training . . . . Organization . . . . Performance . . . . Support

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<th>Training</th>
<th>Organization</th>
<th>Performance</th>
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<tr>
<td>Evaluation of staff technical research, review and implementation capabilities</td>
<td>Set our minds on becoming partners with our clients to improve their businesses</td>
<td>Review our computer hardware/software capabilities</td>
</tr>
<tr>
<td>Find the effort leader and support that person</td>
<td>Employ a firm administrator to relieve equity members of administrative tasks</td>
<td>Update/create consulting library</td>
</tr>
<tr>
<td>Educate all members to improve writing skills</td>
<td>Prepare consulting skills inventory and include in proposals</td>
<td>Establish funding budget for this profit center</td>
</tr>
<tr>
<td>Train all members in personnel skills to enable them to negotiate, listen, and report</td>
<td>Review present clients for details of: Organization Products/services Financing needs Strategic needs/desires</td>
<td>Prepare performance evaluation feedback questionnaires to be mailed to clients after project completion</td>
</tr>
<tr>
<td>Educate members with the skills to implement client solutions through the efforts of client staff members</td>
<td>Prepare proposals and bill in accordance with terms; follow up client authorized change orders with proposal addenda</td>
<td>Review conference facilities and telephone system to ensure adequacy</td>
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<table>
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<th>Support</th>
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<td>Assign time/staff to call client decision makers to assure ongoing performance of recommendations</td>
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MAS AND THE SMALL PRACTITIONER

As a practitioner in a small firm, is it possible to offer clients just bread-and-butter services and exclude consulting? The principals of Carter, Young, Wolf, Davis & Dahlhauser, P.C., a local firm in Nashville, Tennessee, considered such questions when establishing the goals and philosophies that would direct the growth and success of their firm. They agreed that providing management advisory services (MAS) is the key to a successful practice.

Making the choice
Small-business clients have to have financial statements and tax returns and, as a result, many of them see accounting as a necessary evil. It is the CPA’s responsibility to let clients know there is more to accounting than services they need but don’t really want. To not do so is to render clients a disservice.

The decision to develop and encourage specialties is the first step in meeting this responsibility. Individual expertise must be defined and encouraged, and staff ability utilized. Limitations must also be recognized. It simply is not possible to provide all possible consulting services.

The MAS division of the AICPA developed a list of thirty-six technical experience categories to represent the types of MAS provided by the CPAs who are division members. Small firms must recognize which specialties their clients need, and must provide those services that members of their firms are competent to perform.

Small firms usually have no need for a separate MAS department. Depending on individual skills, everyone in the firm performs MAS functions to some degree. Firms find that offering special services adds to their credibility.

Accepting the responsibility
The second step of educating clients about services is basic to a CPA’s livelihood. A common complaint of small-business clients is “My accountant picks up my books, prepares the statements, drops them off, and sends me a bill.” That is the extent of the relationship.

The crossover from accounting to consulting, however, is built on a strong, ongoing client relationship. So, after performing the bread-and-butter services, go one step further. Increased communication and availability are essential elements of this process. These two elements are what differentiates accountants from consultants.

Small CPA firms can usually provide a more personal service to their clients than larger firms can. To consult with clients, you must build a relationship that encourages them to openly discuss their problems. Sometimes these are personal problems, sometimes business. For many small-business clients, these two factors are intertwined and must be considered equally.

Providing necessary services, such as assisting a client in securing a home loan to finance his or her business, and developing the ability to offer a variety of management advisory services, will foster a firm’s growth. Gaining a complete understanding of the picture from the clients’ point of view will help in anticipating their needs. It will also help the CPA to provide meaningful recommendations and to communicate these recommendations in a clear, precise manner.

Providing the skills
As stated above, communication is a major element of any consulting process. The individuals who perform MAS must have the necessary experience and education to communicate with a high degree of confidence. It is not enough for MAS practitioners to just have technical skills. They must also have good communication skills.

Confidence, credibility, and respect between client and CPA requires a combination of the two skills. The firm that chooses the MAS route has the tough task of ensuring that its staff who are relied upon to communicate with clients must have the skills to do so effectively.

Marketing your specialities
The third step in building a consulting practice is to market the specialties the firm has developed. The best marketing tool a firm has is its present client base. Clients who have confidence in their CPA will refer that CPA to others. Specialty clients often result from the strong relationships built up by providing more than the basic accounting services.

While word-of-mouth reputation is its own marketing tool, active participation of partners and staff in professional and civic organizations also adds to a firm’s reputation. Our partners’ decision to strengthen services by developing specialties, to provide constant client contact through communication and availability, and to rely on providing quality, timely work as ways of marketing the firm’s capabilities has proved itself. In four years, the firm has grown from three principals and seven or eight
staff to five principals and twenty-eight staff. The client base has more than tripled during the period. Perhaps most important, though, we find that providing MAS not only promotes the firm's growth and success, it also gives the individuals involved a sense of confidence and pride in their work.

—by Sara S. Lankford, CPA, Carter, Young, Wolf, Davis & Dahlhauser, P.C., P.O. Box 23618, Nashville, Tennessee 37202.
GIVING REAL HELP TO SMALL BUSINESS CLIENTS

Small business owners often don't know who to talk to about their problems. If the situation involves the company or a product, discussions with associates or employees are hampered by fear that any revelations will quickly get around the organization. Any spousal involvement in the business could cloud the independence of that person's viewpoints and judgments concerning the problem. And the owner's attorney, a seemingly likely confidant, frequently lacks sufficient knowledge of the circumstances to be really helpful. So, to whom can the small business owner turn?

In many instances, the CPA offers the small business owner the best opportunity for obtaining real help with problems. A number of partners and practitioners have found they can provide the needed level of help by holding regular consultations with clients. To make the system workable, I suggest the following guidelines.

Reach an agreement with the client to hold regular consultations (the second Tuesday of each month, for example), which last a sufficient period of time, say, 8:30 a.m. until 11:00 a.m., so that some useful territory can be explored. These meetings should be uninterrupted, and held at a site away from the client's office, if necessary. Because these are to be open consulting sessions, there are no prepared agendas or preparatory work. Discussion of the client's financial statements should be reserved for other regular meetings.

The objective of such consulting sessions is to create an environment in which clients feel comfortable having wide-open discussions about whatever issues are on their minds at that moment. Partners say there have been occasions when clients talked about business difficulties, hesitancy over introducing new products, personnel problems, merger discussions, concerns about their financial condition, and even family problems. The idea is to provide clients with a sounding board—somebody who is familiar with their situation, somebody who listens, who cares about the client's well-being, and who may be able to offer some interesting ideas and solutions.

Quite often, the client will leave the meeting with a solution to one or more of his or her problems. Sometimes, the CPA is able to suggest some alternatives, but frequently, the client arrives at a greater understanding of the issue and the best way to deal with it, simply by being able to discuss the ramifications of various actions with someone who is both knowledgeable and interested.

This last point is important. The objective is to have the client make the decisions, not the CPA. The accountant is hired to serve as a listener, supporter, and an informed friend who helps the client think through his or her current concerns.

Obviously, such a series of consultations will only work with a few select clients. There needs to be a particularly good client/CPA relationship, and the CPA must have a genuine interest in and enthusiasm for helping that client. Such activity, thus, may not be suitable for many of the firm's clients.

Of course, the question arises as to whether any clients would be receptive to such an idea. One way to find out would be to select one or two clients with whom you would like to work this closely, and approach them individually to discuss the value to them of the service. If there is interest, you should set the day, time, and place for the monthly consultations and agree to continue the process for a minimum of six months.

I believe two hours should be devoted to each consultation session and that the arrangement should carry the CPA's highest billing rate. Also, it should be made clear at the outset that the billing will be rendered monthly and that the fee will be paid promptly.

If at the end of six months, the client, in all good conscience, feels he or she has not received significant value from the consultations, I suggest the CPA be willing to refund 50 percent of the fees paid. The expectation, then, would be that the client/CPA relationship revert to the form it had prior to the implementation of this service.

The benefits can be numerous
The close relationship and regular consultations provide the client opportunities to think through the issues with someone who is sincerely interested in him or her as an individual, as a member of a family, as a business person, and, ultimately, as a client. As a result, they are often brought to action on some of the problems that were concerning them.

Some of the CPAs who hold these types of meetings believe they are one of the most interesting and valuable services they provide their clients. The opportunity to be really helpful has given them both financial and psychological rewards. Clients rate
the service highly, and have continued the relationship for extended periods of time.

I suspect that many readers have had this type of meeting with clients on occasion. The major difference here is that it is a more formal, regular service. Instead of calling with spur-of-the-moment questions, the client waits to ask them at the next consultation session, in the knowledge that that environment will likely result in a better solution to the problem.

If you haven't tried something like this in a formal sense, let me suggest you consider it. I encourage you to start by carefully selecting one or two special clients — people you care enough about that you would want to offer them such a service — and discuss it with them. It could enable you to give real help to certain small business clients. ☑

— by Donald B. Scholl, D.B. Scholl, Inc., P.O. Box 3152, West Chester, Pennsylvania 19381-3152, tel. (215) 431-1301, FAX (215) 429-1086
DEVELOPING THE SKILLS OUR CLIENTS NEED

Do you and your partners have the skills to deal with the challenges your clients face? About three years ago, one of the managing partners asked a group of us that question. After some discussion, we concluded that none of us did. As a result, we have subsequently worked on developing skills we believe will help our clients.

What we are having to deal with is a change in perception on the part of our clients. Clients used to believe most value resided in the traditional services we provided them. Now, however, informed clients perceive equal value in advisory services.

Clients don’t judge us the way we think they do. What they really want to know is whether we will go the extra mile for them, and whether we are willing to become involved and take risks. Often this means offering advice they may not like. Of course, our traditional services (auditing, accounting, tax, etc.) still have value to clients. But more and more, they are looking for value-added services.

As an example of what I mean by value added, our traditional services now include financial presentations with graphs and ratios. Clients have come to expect this. We will also review clients’ retirement plans, hand deliver tax returns to some of them, discuss rents if they have rental property, and even let them know when and how to hire chief financial officers.

What do clients want from their CPA?
Clients need help in making decisions. They need help in understanding the structure of their business organizations, they need to know how to improve results, solve problems, and how to determine what is and what is not working. Increasingly, the role of the CPA as pure technician will be limited. By this I don’t mean to downplay the need for good-quality work and technical skills. I believe, however, that in the current environment, we have to be more than a technician to our clients.

Clients often have a problem making decisions, and I think we can help them there. But we, too, are generally more comfortable with the status quo. There are several reasons why we find it difficult to make decisions.

First, there is the fear that we might make a mistake and put the client relationship at risk. An example might be a succession issue in a family business. Perhaps a son or daughter has been identified by the owner—your client—to take over the management of the business. You believe the individual is not up to the task, however. What do you do? Do you tell the client?

Or let’s say you have a client who has loaned money to a relative. Do you tell the client that you don’t think that is a good idea? Would you advise that it might be better if the client guaranteed a bank loan so the bank could put pressure on the individual if there were delays in repayment? These are just a few of the ways the CPA could help clients make decisions if the CPA were willing to take the risk.

What if all the facts are not known? You know you can’t make irrational decisions, but as a good business advisor you need to bring things to a head. Do you take a chance?

On occasion this might result in your making the wrong decision or making one that other people don’t like. But sometimes failure to make a decision can limit your ability to succeed. Sometimes it is necessary to make a decision even if all the facts aren’t known.

The key to helping clients make decisions that lead to their being more successful is to understand the evolution of organization structure. If you look at the exhibit on this page, you will see how organizations typically go through various phases of growth and crises, and how some may remain small businesses.

To help clients improve results and solve problems, you need to understand each client and each client’s business, and you need to know which phase the client’s business is in. Perhaps even more important, you need to understand the people in the client’s organization.

About 90 percent of the employees in most organizations are technicians—people who learn one or two skills well and take responsibility for doing their own jobs. Technicians need and want clear guidelines.

About 9 percent of the people are managers. These are the coach/teachers who get the day-to-day work done. They are typically oriented toward operations and deadlines, and tend to be methodical. They pay attention to detail, yet are able to see how each individual job relates to the others.

Only one percent of the people in an organization are leaders. These are the visionaries who can see the "big picture" relating to the company, its industry, and the general economy.

Leaders empower others. They make their pres-
The practicing CPA on Developing and Marketing Services

EVOLUTION OF A BUSINESS

Management and business practices differ in companies radically different in size and at different maturity levels.

Growth Indicators
- Number of employees
- Revenue
- Asset base
- Number of branch or plant locations
- Etc.

Crisis
- Senior Mgmt./Middle Mgmt.
- Systems
- Planning

Phase IV
Professional Plan

Phase III
Professional Management

Phase II
Entrepreneurial Expansion

Phase I
Entrepreneurial Start-Up

Permanent Small Business

Crisis
- Leadership
- Systems

TIME

are willing to both trust and act on intuition. To be an effective adviser, it is essential to become familiar with the owner/leader's vision for the organization. You must be able to determine what is working in clients' organizations and what is not. To do this, you must ask questions and listen carefully to the responses.

Defining skills for the future

Be willing to do something different. Technical competence will always be expected by clients, but you will also need to have diagnostic skills to determine what is working and what is not. You must be able to sell yourself and your firm, have ample experience and management skills, be able to anticipate clients' needs, and, importantly, be an agent of change.

To be a better business advisor to clients, you need to understand three key elements: 1) business, 2) money, and 3) people. We already understand finance and can readily learn about clients' businesses. When it comes to the leaders, consider these seven characteristics of successful people: They are receptive to ideas, continually identify opportunities, plan, are willing to change, understand their businesses, have leadership qualities, and seek advice from outside their organizations. You should be the one they come to for that advice.

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THREE-STEP BUSINESS CONSULTING

We all want to help our clients be more successful. The bottom line is that if we can help them be more successful, we will benefit, too. But much of the information clients need to run their businesses today is nonfinancial in nature. So if we are to provide the service needed, we will have to continually expand our horizons through study and reading.

There are three steps involved: 1) understand what clients want and need; 2) develop the necessary skills; and 3) develop a method to help clients. Let’s see what is entailed.

Clients are looking for value-added services, in addition to the services they have traditionally received. They want access to other people’s knowledge and experiences, and want their CPA to raise issues with them. They want to know what you think about these issues and, in many cases, to tell them what they should be thinking about. Clients also want help in solving their problems and in making decisions.

Public accounting firms are not immune to the concept of creating customer value. Today, clients expect to receive services from professionals who understand their business and can help it grow and prosper.

I came to realize that I could provide a value-added service by becoming a coach to clients and, also, that I did not need to have all the answers. I discovered that the best way to really help clients is to facilitate their own discovery of the answers to problems. I also learned the value of taking a position with clients on certain issues.

Clients often want to talk about what their businesses will be like in the future. It is human nature to drift out of focus, however, and clients tend to become distracted by other apparent business opportunities. You have to keep them focused on the current situation. An example of a position I have had to take is that diversification usually does not work.

What clients don’t want is financial surprises. So consult on a flat-fee basis. Estimate how much time will be involved, price the service accordingly, and tell the client what the cost will be before you begin.

As companies grow, problems and solutions to them tend to become markedly more difficult and complicated. Jobs become more interrelated, there are more levels of management, and communication suffers. A frequent cause of problems is that people who start businesses often don’t know how to manage other people.

To be a good business advisor, you will need to help clients understand the evolution of organizational structure. You will need to explain how organizations typically go through various phases of growth and crises, and how some may remain small businesses. (See “Developing the Skills Our Clients Need” in the May 1995 Practicing CPA.) You might also keep in mind that

□ You must spend time with a client to develop a relationship.
□ All businesses will grow in some manner, if only due to the effects of inflation.
□ Growth means change.
□ To make change work, there must be a commitment to action.
□ Change will require a change agent.
□ You must spend time with the client to maintain a relationship.

The four areas in a mature (phase III) company that should be monitored

We use a tool called a report card to help clients focus on certain aspects of their businesses. The critical areas are their systems operation, money and finance, market niche and product, and organization and structure. The report card is a one-page, monthly account of about fifteen items within these areas that we and the clients believe should be tracked closely.

We look at their accounting records and financial performance reports to see what is working and what isn’t, and at the types of budget they have. We might suggest setting some goals or talking to the controller about cash management and collection policies. Sometimes, we talk to clients about their marketing and sales, and about production and operations.

We ask clients if they understand or use the information their controller or accounting department gives them. Most clients say they neither understand nor use the information. We then point out that the production of lengthy reports is a waste of resources and that summary reporting would be more helpful to them.

Sometimes, these discussions reveal other ways we can help clients. For example, we might ask if they know why they lost customers. On several occasions where the client was uncomfortable about following up with lost customers or did not have the time or technique, we have had our mar-
marketing director call the lost customers to find out why they were unhappy.

Perhaps we have to understand more about our clients’ situations and what is going on in society today. Have you ever thought of talking to clients about how any number of things cannot be done the traditional way anymore? Have you ever discussed how people seem to be looking for value more than they used to, or about increasing competition, and how they, your clients, will cope? This is where your own experience in dealing with competition as a CPA can be helpful. You need to address issues such as these and help clients with them.

Do you talk about profit margins, for example? A lot of clients are making less money on the products they sell today. Do they realize why that is and what they can do about it? Do clients realize how consumer use of the Internet might affect them?

Can you help them with business strategies? Many times at the start of a new engagement, I ask clients to tell me about their plans and so forth. I try to demonstrate how our firm can, perhaps, offer some unexpected help in this area. These discussions don’t always lead to more business. That is not the purpose. The goal is to build relationships and help the clients.

I ask clients if they understand the evolution of organizational structure and which phase they think their business is in. This is important because management and business practices differ according to a company’s size and maturity level.

Some businesses remain permanently small. These are typically businesses started by a highly skilled technician whose management skills don’t match his or her operating skills. The focus is almost entirely internal, and growth is not an objective. These businesses are dependent on their founders, owners, and operators. Continuity is a problem.

Phase I companies are those where the owners have decided to build an organization. The founders are still running the company. They are not strong managers, however. There is minimal consistency in management systems, and management reacts mostly to customers’ rather than to employees’ needs.

There are bound to be problems. Sometimes if there were more than one founder, it may not be clear who is in charge. There may be conflict between the owners. Current employees are not motivated as the original employees were. Accounting controls are poor, and there are working capital shortages. The main problem, however, is lack of business planning.

What often happens is that the owner thinks diversification will solve the problems and loses focus. What most small businesses face at this point is a phase I management crisis.

This is the point at which many businesses fail. The owner might think about shrinking the company to its original small size, so as not to put up with the trouble. We tell clients that these problems and crises are going to occur as their organizations grow and that we would like to help them work through this critical juncture.

I usually spend about three hours going through this presentation with clients to make sure they understand what is happening. I tell them that we can help them avoid some of the problems and that once they are beyond this point they will recognize it.

A phase II company has solved its phase I problems. There has been agreement on a leader, and reasonable attention is being paid to activities such as marketing, accounting, and data processing. The business has been able to continue growing.

But delegation has become a problem for the leader, and access to him or her has become difficult. If we look at our own experiences, as our firms went through these growth phases, we can tell clients what the problems are going to be. We can explain that some of the decisions they made in phase I concerning data processing, expansion, use of people, and so on, were, basically, short-term fixes that got them, maybe, halfway through phase II. They are going to face some management and systems problems again.

A phase III company is a professionally managed firm. By now it is financially stable and seems set on trouble-free growth. The company will run into many of the same problems as before, however, and, in addition, will be hampered by inadequate planning. You have to learn how to equate these problems if you are to help the client.

Understanding people is key. You can talk about how different types of people are needed in an organization as it grows and requires individuals with different talents and responsibilities. You can discuss employee support systems, how to obtain performance feedback, and help devise a fair compensation system. You can talk about your client’s role as CEO and leader, and assist in developing the company’s mission statement.

How can you prepare yourself for three-step business consulting? First of all, I recommend you read
the following books: *Leadership Is an Art*, by Max Depree; *The Lightning of Empowerment*, by William Byham; *The 7 Habits of Highly Effective People*, by Stephen Covey; *The Effective Executive*, by Peter Drucker; and *The E Myth*, by Michael E. Gerber. I give clients these books and find it helps build rapport with them.

Larry Greiner’s article, “Evolution and Revolution as Organizations Grow,” that was published in the July/August 1972 issue of the *Harvard Business Review*, has influenced the way I work with clients, and you might also consider Joel Barker’s video tape, “The Business of Paradigms.” I have used this tape time and again in my presentations with clients.

Then, use your practice experiences as an example. How do you make business decisions, bring in partners, and so on? If you can relate to clients, you will become a better business advisor. Clients need help making decisions and want efficient, timely service with no surprises on their bills. Make them feel they are dealing with an expert.

Learn to use flipcharts so clients can actually see what you mean, and use different colored markers to highlight important information. Learn to listen and learn to take positions. Give away books and articles and remember to keep an open mind. There is a great opportunity out there for helping your clients.

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Never has the need for competent management advisory services (MAS) been more pressing in the small-business community. The rapid growth in franchising, competition from imports, and the trend toward high-volume retailing have squeezed closely held firms in America. In addition, the failure rate of start-up businesses is high during their first three years of operation, and many other small concerns limp along almost indefinitely. The problems small businesses face, however, represent great opportunities for MAS-oriented CPA firms.

I believe clients will pay for services they find valuable, but for the most part we CPAs have not done enough to change business owners' attitudes toward our services.

The CPA's changing role
To change client perceptions, CPAs must first change their own day-to-day role in the business arena. During the twenty-five years I have been a small-business adviser, I have identified the following major roles that a management-oriented CPA must play in order to have a significant impact on clients' operations.

- **External controller.** Few small businesses can afford to carry an experienced CPA controller on staff. Most operate with a bookkeeper. In these situations, the CPA can assume the role of external controller—providing ongoing counsel regarding major business decisions, and proposing record keeping and financial information systems that help the business owner make intelligent decisions.

- **Financial educator.** If accounting is the language of business, then a majority of small businesses need a translator. In many situations, small-business owners have a sales or technical background and lack skills in financial matters. As a financial educator, the CPA can show entrepreneurs how professionally designed solutions and systems can make their businesses more profitable. Once they learn the basics of financial management and the benefits of professional guidance, business owners can be approached on many facets of MAS.

- **Professional team captain.** To assist clients, the CPA should define the roles of their bankers, insurance benefit advisers, attorneys and advertising counselors. Should clients lack any of these key external professional advisers, the CPA should be prepared to assist in the recruiting effort.

- **Planner and adviser.** My experience is that fewer than 10 percent of small-business owners have written business plans or annual budgets. The CPA can help clients use the planning process to take control of their day-to-day business affairs.

**Learning to identify needs**
Selling MAS counseling to a struggling small business is a tough proposition. It is best to focus on one specific problem and propose a solution that has a compelling cost/benefit argument.

Let's take a simple example—automating the inventory control and receivables function. This can be expensive in terms of hardware, software, and training. Yet once the program is quantified in terms of higher inventory turnover, reduced pilferage, elimination of obsolete merchandise, and better cash flow, the proposal becomes a clear cost/benefit decision.

The above example shows how MAS can have a real impact on small business. To make a long-term impression, though, practitioners must learn the problems of small businesses and develop solutions for them. Through the years, I have noticed several areas that seem to haunt small businesses, and I have a few suggestions for better understanding and solving the problems.

**Lack of planning and budgeting**
Many entrepreneurs don't believe they need a formal budget to hold down costs and increase sales. They see little need for planning as long as the money they are owed exceeds their unpaid bills.

The CPA can help business owners by guiding them through the planning process, assisting with the development of objectives, and showing them how to allocate the time and resources for meeting these objectives. Budgets can enable business owners to monitor their progress on a weekly, monthly, or quarterly basis. Through the help they receive in planning and budgeting, clients will learn the benefits of MAS counseling in many other areas of business.

**Ineffective professional advisers**
Few business owners would argue the need for external help regarding insurance, accounting, law, advertising, marketing, and banking, yet many avoid using professionals in an effort to reduce expenses. As captain of the team of professionals, the CPA can help business clients recruit advisers and hold the cost of using them at a reasonable level.

Entrepreneurs who learn to use their team of pro-
fessionals will see a return many times the cost of fees paid. By putting that team to work for clients, the CPA helps to position their businesses for maximum profitability.

Ignoring financial statements
Generally speaking, business owners view financial statements as irritants—something prepared to satisfy creditor requirements, period. Quarterly or monthly financial statements are the business report cards, however, showing progress against a plan. Financial statements can be structured to provide owners with an easy and valuable analysis of costs by product line. Operating expenses can be categorized into personnel, facilities, advertising, promotion, and administration. By encouraging entrepreneurs to read and understand financial statements, CPAs can help them spot trends and potential problems in the early stages.

Erratic key-cost control
Even a mismanaged business can survive as long as key costs are held within survival limits. Too many small operators, however, have no formula for key-cost control. In fact, some have never consciously identified their key costs.

Most small businesses have fewer than five key costs. These vary, depending upon the type of business, but typically include labor and materials. To meet objectives, the owner should monitor key-cost performance on a monthly basis, using a formula that eventually states the cost as a percentage of the sales dollar. Then, when costs go over maximum limits, the owner can take immediate corrective action.

The computerless business
Considering the cost of personal computers today, few small businesses can afford to operate without them. CPAs can perform a valuable service by introducing clients to computerized inventory and receivables control and to word processing.

When assisting a client with computer options, the CPA should determine how the equipment can also help with marketing and sales development, even if this is only to maintain a customer list or to track sales leads. With the right marketing counselor on the professional team, this type of assistance is readily available.

Personnel mismanagement
As MAS advisers, CPAs can make a measurable difference in the profitability of small businesses by suggesting some textbook personnel-management principles. Few small businesses, for example, have a formal system for reviewing or evaluating job performance. Often, employee communication is poor, although key managers see each other frequently.

Many small-business owners have never developed job interview skills. They tend to select new employees on intuition rather than on the candidates' proven skills and track record, and seldom ask for or check references. Entrepreneurs also tend to neglect training. Small-business management seminars are available, but are not usually well attended. The CPA MAS practitioner can suggest training plans, and help develop work scheduling, incentive/bonus, and other programs to boost employee morale and productivity.

Informal purchasing/inventory control systems
This is an area where most small businesses could improve key costs significantly. Using computerized day-to-day inventory, purchase and sales records, business owners can project their needs for the long term. They can project raw material and supply requirements on an annual basis. Purchasing decisions covering annual usage—with a predetermined requisitioning system—can cut overall costs.

Many small-business owners engage in no-bid purchases of key, high-volume items, often because of supplier loyalty. A bid-purchasing system is easy to install and maintain, however, and like key-cost analysis and computerized inventory control, is part of the management program CPAs should be offering small-business clients.

Loose credit, receivable and collection procedures
Entrepreneurs tend to think of credit as a "collections" function and pay attention to it only when the list of "over ninety-day receivables" gets out of hand. Most need a system to help them determine customers' ability to pay. A formal credit-check procedure that is routine in larger companies does not seem to have much priority in smaller firms. Yet credit checks give business owners the information needed to negotiate price and terms of sale. The time for initiating the credit procedure is prior to the sale, not ninety days after invoicing.

Collection is still part of the credit function. Every business should be advised to prepare a monthly list of aged receivables and to use that list to determine collection emphasis.

No tax planning
Tax planning is another area where a professional team member—the insurance/benefits adviser—can work with the CPA to help small-business clients. With professional guidance, just about every
company should undertake an analysis of fringe benefits, particularly in light of the Tax Reform Act of 1986. The complexity of the tax code, and the many tax-advantaged investments available to business, make tax planning a vital service CPAs should be providing to their closely held business clients. 

—by Philip L. Wiggle, CPA
Amherst, New York
IT'S TIME TO SERVE SMALL BUSINESS (PART 2)

The failure warning systems
Plans, budgets, and textbook management systems are still at the mercy of the human element. To be effective, good advice must be heeded.

CPAs who are interested in developing a small-business MAS practice should learn to read the signals of a failing or marginal business and should point them out to every client for whom they do a tax return or financial statement. Such counsel can lead to higher income for both CPA and client.

Consider some of these signals that might be spotted during a brief visit to the client's premises, or during a ten-minute review of the quarterly financial statement:

☐ Disorganized physical plant. Clutter and unkempt appearance are often indications that management's entire business philosophy lacks organization. Well-run businesses are usually neat, organized, and pleasant to visit.

☐ The workaholic mentality. While some people may love eighty-hour work weeks, most small-business owners put in long hours because they have not learned to manage time and to delegate responsibility and authority.

☐ Late payers. A long list of overdue bills may indicate that cash flow is amiss. Small businesses need a twelve-month cash-flow forecast to help them meet objectives.

☐ Lack of answers. Entrepreneurs who can't identify their average monthly balance of outstanding receivables, or gross profit margins on key product lines, are probably running their businesses on intuition rather than facts. Chances are, they have not delegated work efficiently and have not set up systems to track vital areas of business performance.

☐ Insufficient (or nonexistent) advertising. Most small operators have no written sales development plan. The MAS adviser should see that promotional dollars are allocated in the annual budget and used in a rational and, if possible, measurable fashion. A business with no formal promotional activity is headed for stagnation or even failure.

☐ COD payouts. In some businesses, such as restaurants, cash payments to suppliers are common. Most operations, however, resort to COD payments only when vendors shut off their credit.

Adopting a new focus
CPAs who spend time at clients' places of business and who consciously look for failure signs will find that identifying management problems, and the symptoms of these problems, soon becomes part of their business instincts. Successful MAS counseling, however, cannot be accomplished unless the CPA possesses sharp people-to-people skills. Advising small businesses requires salesmanship, diplomacy, perseverance, and empathy. It is easy to point out errors in accounting principles. It is not easy to recommend firing a brother-in-law or selling the company Mercedes.

To effectively assist small business, CPAs must learn to think like entrepreneurs and understand the ego and rewards that motivate them.

One of the best ways to develop small-business MAS counseling is to concentrate on niches. A firm well known for audit or tax work with automobile dealers, for example, is in an excellent position to help those dealers with management problems. With persistent networking, the CPA can build an MAS client base in that market niche.

Many CPA firms have taken an active role in the programs of the Small Business Administration and local chambers of commerce. It is surprising how quickly a professional can spread the gospel of good management by addressing business dinners, seminars, and night-school courses.

There seems to be a growing awareness among small businesses that MAS counseling works. We CPAs can either fill the demand for these services or others will. To support the growth and prosperity of small business, we must assume a leadership role and help entrepreneurs understand the value of what we can offer. The typical owners of small businesses may want management advice from their CPAs, but they seldom reach out for it. They must be convinced—sold on the idea. And in the end, they must adopt an attitude of trust and reliance toward their CPAs.

—by Philip L. Wiggle, CPA
Amherst, New York
BUSINESS PLANNING FOR SMALL BUSINESS CLIENTS (PART 1)  

An enormous amount of information that is generated as a by-product of performing audits for clients can be used by practitioners to help those clients with their business planning. Much of this information is already in CPAs’ files, particularly if the clients have been with them for some time. Other useful facts are quite easily obtained.

Quite often, clients are so busy running their businesses that they do not have time to either scrutinize all costs or to plan properly. The CPA can do these things for them. And, being a business planner lets you become involved in all aspects of your client’s business. This is good. The work is interesting, varied, fun even. So, here are some suggestions for making use of available information and for having some fun helping small business clients with their planning.

**Basic objectives of the company**

One of the first things you should do is find out the type of company your client wants. What, for example, is the desired size? If the client has considerable growth in mind, you will have to think in terms of how this can be achieved and from where the necessary capital and staff will come.

Does the client intend to diversify? If so, you should not only help determine into which industries or specialties, but the degree of diversification the client wishes to achieve.

Which markets are the client’s products aimed at? Is the quality consistent, and are the products compatible with the price level? You can help the client in these areas by finding out what is being returned and by setting up adequate quality controls. You can determine product obsolescence, help reduce waste and find out what competitors are charging for similar products.

You will have to be a bit of a psychologist. A CPA must know his client. Is he aggressive? Does he have a lot of initiative? Does he take risks? Is he income-oriented? A gambler? What are his views on raising capital?

You will also have to take note of your client’s social philosophy because some of this may have an impact on the company’s balance sheet. (He must also conform to government regulations.) You must understand your client's attitude toward customer service and find out how active he is in community relations. Employee relations are important too because of their effect on payroll costs as well as morale. So, check to see if he has a high turnover. Look into stockholder relations. Determine what the company’s policy is on keeping stockholders informed and on paying dividends.

Management philosophy must be examined as well. A small business often has one person who makes all of the decisions. This could affect staff turnover. Examine the quality of key personnel. It takes a lot of talent to run a small business. Usually, there aren’t any specialists as there are in large firms—people have to know more and do more. You must identify the key component of success—it’s most often built around one individual’s talents. You might also take a look at management’s attitude toward planning and control and the strictness of staff supervision.

**Sales policies**

You should determine the sales trend of each product line to see if your client can save money by eliminating some of them. Analyze each line’s contribution to profits. You’ll find that most small clients don’t have a sufficiently sophisticated method of determining this and will benefit from keeping their product lines simple. So, count the number of models in each line, note the sales of each and the frequency of change in style and design.

There are numerous surveys connected with sales that you can conduct for the client (others are conducted by trade associations). For example, is most distribution made through owned or independent distributors? Do manufacturers’ representatives play a part, and are there any direct sales to dealers? You can also find out who the major customers are, where they’re located, the size of their individual orders and their annual volume.

In addition, you can be of great help in your client’s promotional and advertising efforts by finding out for him who buys what and why. You should check into the advertising program, the frequency of ads and the media used. Don’t overlook personal solicitation. Areas to investigate are the number of prospects, the frequency of contacts and the number and type of salesmen. Find out what salesmen bring in, how much they spend, etc. You have the payroll data, so it’s easy for you to check various sales costs.
Procurement policies

The client will frequently have to decide whether to produce certain finished items or component parts, or to buy them. These are good study areas for the CPA.

You should check the client’s inventory policy, ask why he bought this or that and note how seasonal variations are handled. Find out the savings involved in buying in quantity, and don’t forget to see if the inventory is moving.

Another service you can perform for the client is to find out if the people in the purchasing department obtain bids or just buy from those they like or to keep business in the community. There is nothing necessarily wrong with these practices, but you want to make sure that prices are competitive.

Personnel policies

You should know about your client’s personnel policies and methods of training. Find out how people are hired, what criteria are used and what the policies are on promotions, layoffs and discharges. Is there a job evaluation process? How are people compensated? Are there incentives? Check the working conditions, and take a look at the company’s policies on working hours, vacations, holidays and the employee services it provides. (You can tell the client the costs of the cafeteria, insurance, etc.)

Financial policies

These, of course, are familiar areas to the CPA, and you most probably are already involved. But, for the record, you can perform a valuable service by checking both the source of capital (such as bank loans and trade creditors) and its utilization (inventories and receivables, etc.). Scrutinize the client’s policies on the distribution of earnings. Is the money being paid out as dividends, being used for expansion or to reduce debt?

Finally, you must know the company’s financial condition and prospects. So, check that the capital is adequately protected, that there is sufficient insurance coverage, analyze the budgets and do some comparative studies of revenues and expenses.

Adapted from a speech by
William J. Storm,
management consultant
New Orleans, Louisiana
BUSINESS PLANNING FOR SMALL BUSINESS CLIENTS (PART 2)

Once you have determined your client's business objectives and policies and have assembled sufficient data and information (see part 1 in last month's Practicing CPA), you will be able to provide significant help in the company's planning for management improvement.

There are always better ways of doing things. For example, the company may be able to justify the initial expense of a word processing system as opposed to buying ordinary typewriters. So, set up a capital equipment replacement program for your client. Decide what needs to be replaced and when, and determine the source of necessary money.

Make sure that key personnel are adequately trained and that leadership qualities are developed. These steps are often neglected in small businesses where the founders are still in charge. Check that there are policies which encourage the purchasing staff to work closely with suppliers in order to obtain the best value for money spent.

The whole organization should become a closely knit unit in which is customer satisfaction. Somebody in the firm has to sell customer service, so see to it that a competent sales organization is developed (even if it's only one person). Work with the client to ensure that good employee and public relations are established.

Budgets must be set up to control both direct and indirect expenses. This will be the time to eliminate unnecessary fringe items and to do some forecasting for future sales, expenses and profits.

You must convince your client of the important advantages to be gained from budgeting. You can point out, preferably in a letter, that planning is made more exact when specific quantities of merchandise and supplies, the number of hours involved and the various costs incurred are all set down in a budget. Then, choosing alternatives and coordinating activities are made easier.

Show your client how control can be facilitated by comparison of the planned figures with actual results, and how costs can be reduced if there is an awareness of them. Show how budgeting can be helpful in establishing performance standards in key areas of the company—an important aid in motivating employees.

Explain a few more budget details if necessary. Tell your client that the sales budget is based on the company's past performance and on indexes and forecasts of business conditions put out by trade associations, etc. The budget can determine what products are to be sold, how they are to be sold, in what amounts and at what prices. However, the budget must be flexible so that new products can be included.

Point out that the purchase budget depends on the level of sales, the inventory on hand at the start of the period and the desired inventory at the end. Explain that the reasons for taking inventory are to prevent delays due to a shortage of parts or materials and to economize on purchases through anticipation of price increases.

Let your client know which areas are covered in expense budgets. Mention items such as the payroll, travel and entertainment, supplies, services, taxes and building occupancy costs.

Here is a checklist of basic tools for business guidance that you can show your client. You probably have many of them already and can help develop others.
BASIC TOOLS FOR BUSINESS GUIDANCE

Tools for Long-range Planning and Control
1. The long-range forecast of demand.
2. The definitely-stated, long-range sales goal.
3. The comparison of factory capacity and distributive capacity with the long-range sales forecast.
4. The long-range expansion plan.
5. The long-range financial program.
6. The annual comparison of accomplishments with the long-range sales goal, the long-range expansion plan and the long-range financial program.

Tools for Short-range Budgetary Control
7. The general budget.
8. The estimated statement of profit and loss.
10. The production schedule or budget.
11. The inventory formula.
12. The sales budget.
13. The purchase budget.
14. The labor budget.
15. The manufacturing expense budget.
16. The selling and administrative expense budgets.
17. The advertising budget.
18. The break-even calculation.
20. The table of financial ratios.
21. The cash budget and financial program.
22. The plant and equipment budget.
23. The comparisons of the budgets with operating results.

Production Control Devices
24. The general summary of production, shipments and inventory.
25. The general report of production expense.
26. The statement of production and labor cost per pound and per unit.
27. The percentages or indexes of plant and equipment utilization and related data.
28. The factory inventory report.
29. The general report on production labor.
30. The factory shipment report.

Tools for Sales Direction and Control
31. The sales quotas.
32. The market index.
33. The general report of sales.
34. The comparison of sales with the sales quotas and the potentials shown by the market index.
35. The report and analysis of selling costs.
36. The summary of selling expenses.
37. The report of collection quotas and collection results.
38. The apparatus for management of the individual salesman.
39. The general indicators of sales activity and success.

Advertising Control Devices
40. The tools for controlling advertising.

Inventory Control Tools
41. The inventory budget and report.
42. The dollar open-to-buy controls and the unit stock controls.
43. The special reports of stock conditions.

Special Executive Tools (Tailor them for the client)
44. The monthly progress report.
45. The danger flag report.
46. The special analyses of trouble spots.
47. The indexes of economic and business activity.
48. The summary of general economic conditions and appraisal of their effect on the business.
49. The division of the sales dollar into its component parts.
50. The audit of management.

This is the second of two articles by William J. Storm, New Orleans, Louisiana.
CORPORATE PLANNING: A PREVENTIVE CARE SERVICE

In recent years, the health insurance industry has recognized that one way to cut medical costs for policyholders is to improve general health through "preventive care." We CPAs can provide a similar service to our clients. We can help them improve the health of their businesses through the use of corporate planning.

CPAs have an opportunity to develop a "preventive care" service—that is, to consult with and train client management in the use of corporate planning. This service can provide the base for a source of revenue that can become as profitable as audit and tax assistance. Since the planning process is a continual, cyclical one, planning assistance is needed on the same basis.

Corporate planning provides a structured approach to developing and achieving firm goals that are consistent with the values and aspirations of the chief executive officer (CEO) and top management. It helps provide continuity and makes the management of companies easier.

An effective planning process begins with negotiations between the CEO and top management to define shared values and goals for the company. Next, the goals are translated into objectives, strategies and actions that will motivate staff while supporting the firm's values. The end result should be a company that is strategically managed—a company in which top management is poised to make timely decisions and take actions based on the values, goals and strategies developed in the planning process.

Companies that need outside corporate planning assistance are, generally, privately held corporations with gross revenues of less than $100 million a year. (Most large companies have competent planning departments.) Such privately held corporations are often run by an individual or by a small group of owner-managers who exercise full control over the business. The financial position and market penetration of these companies are the result of the entrepreneurial talents of these individuals rather than of a coherent growth plan.

Getting the CEO and the management team of such companies to understand that corporate planning can increase their profits and make their firms easier to manage is not always an easy task. Entrepreneurs tend to be "eternally optimistic" that their companies will succeed. The chances are slim that they would have started their businesses without this positive outlook. They are also likely to believe that their companies do a good job at planning, although the process is not formalized.

Getting the client's attention

The engagement partner for current clients will need to assume responsibility for "getting the client's attention." A good time for an informal discussion between the CPA and the CEO is just before or after the exit conference for audit or other services.

The engagement partner might start by asking the CEO questions, such as "How will your business change during the next few years?" and "Do you think that you can convince the next line of management to make decisions that are consistent with your vision of the company?" The CEO needs to think in broad terms about the business, considering, for example, such matters as whether the original goals are being met and whether the business reflects the CEO's input. If the CEO already has a plan, the engagement partner should ask to see the mission statement and other documents that describe the plan. If the plan is on record, the CPA can then find out whether the next line of management understands and is committed to the goals and values that are reflected in the plan.

A negative reply to either question sets the stage for further discussion. The CPA can explain that the business can reach its goals and will be easier to manage if the CEO and the management team are in business for the same reasons and if they know and can state those reasons.

The chances are high that the client will not make a commitment to develop a corporate planning process at the conclusion of this first meeting. During subsequent discussions, the engagement partner will need to reiterate the benefits of planning and, where possible, help the client relate the planning process to the realities of the specific business.

If the client decides that corporate planning might benefit the company, the next step is to convince the CEO to take direct responsibility as leader. While various tasks can be assigned to other executives or outside consultants, the CEO must lead the team through the process in order to achieve positive results.

Plan development begins with the understanding of the CEO's position in the business. Then the planning moves from writing down financial goals for the year to a process in which market intelligence, operations and financial data are sorted and analyzed by the CEO and the management team.
The CPA's role is to serve as a technical adviser on corporate planning and to provide assistance in conducting financial and operations analyses necessary to support decision making. The CPA can also provide technical support to develop information systems, tax strategies or other systems required by top management.

Where to start
The CEO's reasons for being in business must be broader than merely making money. True, all businesses operate on the premise that a profit will be achieved. The reasons, however, for running a particular business need to be more specific. One restaurateur may run three exclusive French restaurants, providing the best in haute cuisine and service to the downtown lunch and dinner crowd. Another restaurateur may own several fast-food franchises, providing tasty, moderately priced, quick meals for the entire family. Both are in the business of serving food to make money, but they provide different kinds of services and use various methods to bring the best service to the public.

A corporate mission statement or credo is the first place to begin the actual planning process. The CEO will need to set aside time to write the first draft of a brief but conclusive mission statement in which he or she states clearly the "what, why, where and how" of the corporate existence. When the CEO feels comfortable with the document, it should be individually discussed with the members of top management.

Going into action
The next step is to schedule a meeting to introduce the planning process to top management, at which time the CEO should describe the benefits of the corporate planning process. An overview of long-range planning, in specific terms such as strategic planning, strategic thinking, strategic management and competitive strategy, should be presented to the management team, and the draft of the mission statement reviewed.

The CEO can suggest to the management team that a major planning retreat would be a good method to lay the groundwork. The retreat can be scheduled a month or two in advance and be preceded by individual and group planning sessions.

The CPA can assist in preparing the training materials, conducting talks on long-range planning and helping the CEO prepare the final draft of the mission statement. The CEO should ask the management team to be prepared to discuss:

- Its views of the financial and operating goals of the company.
- The strengths and weaknesses of the firm.
- The individual roles, contributions and expectations of the team members.

An information kit containing an organization chart, selected financial data, operations and marketing data, and a human resources profile should be given to the team before the session.

The planning retreat
An important objective for the management team's first planning retreat is to develop a common outlook on the future of the business. An honest appraisal of the company's human, financial and capital resources, along with an assessment of its products and services, will help.

The right environment—comfortable quarters away from the office—with some social or "release time" included is important to the success of the planning retreat. It is also a good idea to plan at least one overnight stay. People often need to "sleep on" the new ideas and approaches being discussed.

The meeting agenda that allows time for a free-flowing discussion enables the CEO to make sure the management team understands the proposed structure and purpose. The CEO must lead the team in describing the external environment, markets in which the corporation operates and its position within the industry. The team would then analyze the strengths and weaknesses of the firm and discuss the impact of the competition on the company's ability to generate sales and profits.

Following this discussion, the CEO should present a working draft of the corporate mission statement and ask the management team to comment on the statement and suggest modifications. The CEO must be open to both positive and negative comments, and must be able to extract common themes from the discussion and summarize the results for the team. At this point, the CEO will be able to provide the staff with a clear understanding of the benefits of the problem-solving process.

The retreat is a success if the team can agree on the values of the company and if management will pledge its involvement and commitment. Ideally, the group will leave with the realization that the meeting was a good start but that a lot more work is needed to gain the benefits of corporate planning.

The objective of the complete planning-process package is to shape a management team that is united in its goal seeking; that is in control of cur-
rent operations; that can make decisions quickly and confidently; that can manage risks; and that is able to translate these long-range plans into action. The CPA can provide the advice and technical support to make the process work.

The results of this simple planning process often far exceed the cost to the clients. It is the CPA's responsibility to convince the client that the method is worthwhile and beneficial—that the results of strategic management can be measured in terms of sound financial controls, organized management and a profitable corporation.

―by Thomas S. Watson, Jr., CPA
and Valerie A. Holt, M.S.W.
Washington, D.C.
In 1979 after years of study, Congress passed the Bankruptcy Reform Act known as the Bankruptcy Code (hereafter referred to as the code). Included among the many statutory changes was a provision for what has now become the United States Trustee system. Initially on a pilot basis in approximately eighteen judicial districts as of 1989, the system has been extended throughout the country with the exception of two states, North Carolina and Alabama (which, by statute, will be included by 1991).

The primary purpose of establishing the U.S. Trustee system was to remove from the Bankruptcy Court the many administrative duties which took time away from the judge’s main function—to handle cases and controversies. Among the duties which now fall into the province of the U.S. Trustee system are monitoring the applications for appointment of professionals such as accountants, and the monitoring of fees and fee applications of such professionals.

This article will review some of the practical issues that accountants should know about, and is directed mainly to firms in areas of the country where bankruptcy practice may not be a major or regular source of income. It is directed to those who want general knowledge of the field, but with the caution that if you are going to become heavily involved in the practice, further study is a requirement.

Throughout the article, we will refer to the Bankruptcy Code 11 U.S.C. 101 et seq by sections. We think it is important to the accounting profession to have some understanding of the language of the code, and we will try to present the information clearly.

Additionally, the emphasis of this article is on accounting services rendered in a Chapter 11 case, since it is under Chapter 11 protection that a business continues to operate and an accounting firm is most likely to render ongoing services to a debtor-in-possession, a trustee, or a creditors’ committee. Although accounting services may be required in a Chapter 7 liquidation case, the services tend to consist of finite projects such as reconstruction of books and records or preparation of tax returns.

Applications for appointment of professionals in bankruptcy
Pursuant to §327 of the code, a trustee in bankruptcy, with the court’s permission, is authorized to employ accountants with the understanding that such employment does not represent an interest “adverse to the estate,” and furthermore, “that the parties so employed are disinterested persons.” Counsel will prepare the application for appointment.

The application must show (1) the necessity for the employment, (2) the name of the person to be employed, (3) the nature of the services to be rendered, (4) the proposed arrangement for compensation, and (5) any connections which the accountant has to the debtor, any creditors, or any other party in interest. Additionally, the application must be accompanied by a verified statement (usually termed an “affidavit of disinterestedness” or a “Bankruptcy Rule 2014(b) Statement”) which sets forth the accountant’s connections with the debtor, creditors, or any other party in interest, their respective attorneys and accounts.

Once you have provided disclosure and the court has appointed you, then you may proceed to render services. Although much of the case law interpreting the terms “interest adverse to the estate” and “disinterested” under §327 deals with the appointment of attorneys rather than accountants, there are some practical guidelines that accountants should keep in mind.

If you
☐ Are owed substantial pre-petition sums by the “debtor” (the new code term for the bankrupt), this may cause disqualification.
☐ Have a security interest in some of the debtor’s assets to collateralize your past-due fees, you will likely be disqualified.
☐ Have been paid in the previous ninety days any large sums of money for past-due payables from the debtor, this is deemed a preferential payment and will likely cause a disqualification.
☐ Represent a creditor of the estate, or if your firm does, it may cause disqualification. This is somewhat modified by §327(c) of the code. Depending upon the circumstances, you may still qualify absent objection by other parties.
Bankruptcy Code 328(c) provides that the court may disallow fees and expenses to any professional found not to be a disinterested person or who holds an interest adverse to the estate with respect to the matter on which the professional is employed. Accordingly, in order to avoid denial or disgorge-
ment of fees at a later date, it is advisable to disclose any potential conflict in the application for retention.

Whether the accounting firm is retained by the debtor in possession or by the creditors’ committee, it has a fiduciary duty to the bankruptcy estate and to those who have an interest in it. In particular, as the accountant to the debtor, an accountant must be careful to represent the interests of the debtor and not those of its principals. Further, the accountant should be careful to render services that are within the scope of those specified in the retention application.

Duties in bankruptcy
As indicated above, it is necessary to file with the court the appropriate motion to have the accounting firm employed, and the firm and attorney should discuss fully what the goals and duties are to be so that the court and all creditors (who receive notice of the appointment) know the limits of the duties and what to expect.

In the complex arrangements under Chapter 11, the debtor is known as a DIP (debtor-in-possession), and consequently, your main relationship and daily activities are with the principals of the debtor organization, as well as counsel for the debtor. It cannot be stressed too greatly that all parties must realize that they are fiduciaries and are bound accordingly. Your appointment will likely be through contact with the debtor’s counsel or, if the case is large enough to have a creditors’ committee, through the counsel or the chairperson for that committee.

Your professionalism must be maintained at the highest level, taking care not to become too close to the debtor or counsel that you lose your professional perspective. One of the areas in which this occurs is consulting; that is, debtor or counsel will informally request that you take on a special “project”—one not authorized by the court. Do not do this. Request counsel to have the activity approved. Otherwise, you may not be paid; or if you are paid, you may have to forfeit the fee.

In all Chapter 11s, there is a requirement during the pendency of the Chapter 11 that the debtor prepare monthly operating reports until confirmation. These reports are quite sufficient for the small or medium-size Chapter 11, and are one of the monitoring devices that the court and the U.S. Trustee system employ to determine the financial health of debtors. More than likely, this will either be prepared by you or reviewed by you prior to its submission to the court and to the U.S. Trustee system. This is a most important document, and failure to furnish it on a timely basis is grounds for dismissal of the case. Creditors normally do not receive a copy of this. It is required that the creditors’ committee counsel and chairperson receive a copy, however.

In many jurisdictions where the bankruptcy is of such size that the monthly report is not sufficient to properly inform third parties as to the financial condition of the debtor, this report will be supplemented by an accrual basis financial statement; that is, the normal P&L and balance sheet you would prepare monthly for a corporation. Some jurisdictions routinely require this.

All accounting firms should know the U.S. Trustee in their district. There you will be able to obtain the various forms and other information concerning Chapter 11 requirements. U.S. Trustees have procedures which differ from district to district, depending upon the size of the jurisdiction and work load. If you are interested in knowing the U.S. Trustee in your area, you may write to the Executive Director, Executive Office for U.S. Trustees, National Capital Station, Post Office Box 37060, Washington, D.C. 20013.

Payment of fees
As a professional rendering services to the bankruptcy estate, an accountant must generally make fee applications to the court prior to receiving compensation. If the services rendered are in connection with a specific, finite project, the fee application should await completion of the project. If the accounting services are ongoing, §331 of the Bankruptcy Code permits interim applications every 120 days, or more often if the Court permits. In general, payment of fees at less than 120-day intervals is limited to larger cases where the complexity and size of the cases results in sustained expenditures of time and resources by accounting firms.

One of the major risks as a professional in Chapter 11 matters is that you may never be paid for your services. Therefore, you should discuss this with the debtor and counsel, and with the creditors’ committee prior to being employed. Your fees and expenses are what is known in the Bankruptcy Code as administrative expense, however, and if there are any funds available at all, over and above the operating expenses of running the corporation, you will be among the first paid (see §503), it being understood
that all administrative expenses share the same priority.

—by John J. Grauer, U.S. Department of Justice, Office of the U.S. Trustee, Middle District of Pennsylvania, Suite 503, 225 Market Street, Harrisburg, Pennsylvania 17101

Editor's note: In the second part of this article, to be published in a future issue, Mr. Grauer will discuss fee application requirements and other aspects of the bankruptcy system that professionals often find troublesome.
Bankruptcy: The U.S. Trustee System and the Accounting Profession (Part 2)

The first part of this article, in the April issue, dealt with applications for appointment of professionals, duties in bankruptcy, and payment of fees. This part will focus on some other often troublesome aspects.

Fee applications

The fee application is perhaps the most troublesome point in the bankruptcy system, as far as professionals are concerned. The application should be prepared with the understanding that, prior to approval by the court, creditors will be examining it as well as the U.S. Trustee. Each application must stand on its own and adequately reveal the nature and purpose of the services rendered. Keep in mind the following points:

- All professionals in the firm should be identified along with their rates charged.
- All activities should be identified clearly.
- A beginning narrative to any fee application for highlighting the results achieved is helpful.
- Abbreviations should be identified and explained.
- Duplication of efforts. Ample explanation should be made if more than one professional is involved in any one particular matter.
- Billings are to be contemporaneous. This is a sore point within the system in the sense that reconstruction of your time records for a month at a time is not satisfactory to the court in most cases. While this may be acceptable to regular clients, it should be modified for a client in the bankruptcy arena, that is, where you expect to be paid from assets of the debtor.
- Minimum times. Many jurisdictions will not permit uniform minimum times for phone calls, etc., that are not realistic. If such is the policy of the firm, there must be an adjustment.
- Travel time. Many courts allow one half of the normal hourly rate for travel time. You should find out what the court in your district allows.

A concern that frequently arises in rural areas of the country is that a complicated case will cause professionals to be drawn from distant metropolitan areas where the fee structure differs considerably. This should be discussed fully with local counsel and with the U.S. Trustee’s office to try to determine the attitude of the judge in the court in which you are appearing. Most courts will grant you the fees normally charged in your metropolitan area, but you should be cautious about getting proper advice.

Keep in mind that both the courts and the U.S. Trustee place some reliance upon the professionals for the smooth administration of the bankruptcy system. A recognized quality professional is generally welcomed in the knowledge that the case will not come to a successful conclusion without his or her contribution.

One of the specified statutory duties of the U.S. Trustee is to review and comment on fee applications. If you have not previously worked in the bankruptcy field and are thus unfamiliar with preparing a fee application, you should consider submitting the application to the local U.S. Trustee’s office for comment, prior to filing it with the court. In this manner, any deficiencies can be remedied prior to the court hearing on the application and perhaps avoid delaying the award of allowances.

The U.S. Trustee system was not set up to nitpick professionals. By passing the Bankruptcy Code, Congress intended that professionals be encouraged to come into the bankruptcy system and that they not be deprived of the fees they would ordinarily generate in their communities in nonbankruptcy matters.

In fee determination, there is a frequent reference in the case law to the so-called “lodestar theory.” The theory, basically, is that professionals are to be compensated based on reasonable hours times a reasonable fee per hour for necessary work. Many frequently confuse the lodestar theory with bonuses or enhancements, meaning that over and above the fee to which you are entitled—the reasonable hours times the reasonable fee per hour—an additional fee or bonus is requested. Except in the most highly complex cases, which called for extraordinary skill beyond that contemplated in the basic rate structure, or where there is high risk to being paid, or where extraordinary, unexpected results were obtained, bonuses or fee enhancements are unlikely.

Plans and disclosure statements

In order to reorganize properly in Chapter 11, a debtor must issue what is known as a Disclosure Statement and a Plan of Reorganization—the contents of which are points of substantial contention among and between the debtor, bondholders, shareholders and, of course, creditors. Most plans are geared to future anticipated income or involve a
refinancing, and necessarily require the expertise of accountants.

The code does not spell out in detail what is required in a disclosure statement, but in a successful reorganization, this will probably be the most time-consuming, critical event. This article cannot possibly do justice to treating the issue and it should be the subject of special study. The sections of the Bankruptcy Code that deal with this are §§1121–1129. Adequate disclosure is the key.

Overall approach
In most cases, especially where you are representing the debtor, the duty you have is a fiduciary one. This springs from the debtor's responsibility. Thus, at all times you must appreciate that the debtor is, in essence, the custodian for creditors' funds and is operating the business basically on their behalf. Remembering this solves a number of ethical problems that might arise in any bankruptcy. You must have free and open access to the debtor and counsel in order to satisfy yourself that what you are doing is in line with your professional, ethical requirements. In this area, it is those activities which benefit not only the debtor but other parties to the bankruptcy. Enough cannot be said concerning this point.

Preferences and fraudulent transfers
Preferential transfers are defined at code §547. Generally, they are those transfers which occur within ninety days preceding the bankruptcy and pay a past-due debt. This is another area where the accounting firm and the professional involved should have some degree of expertise. You should know what a preference is, as well as what is known as a fraudulent transfer §548—that is, transferring property without ample value being received. Again, this article does not permit adequate explanation, and the subject should be studied. The key is to know what preferential and fraudulent transfers are and to be prepared to examine the debtor's books and records with regard to them.

Budgeting
An unfortunate dilemma occurs in bankruptcy matters, in that the very people who are in bankruptcy and who have not managed their affairs in a fashion that is conducive to good business practices are now expected to do so. One of the areas is budgeting—in one-year, two-year, and five-year segments. Depending on the size and complexity of the individual Chapter 11, accountants should, and can, play a major role in this area from a standpoint of advice by participating in the budgetary process.

It frequently takes a third party to intervene in designing a budget that is neither pie-in-the-sky nor defeatist, but is one that is workable. This discipline is frequently foreign to many debtors, but the accountants must be quite forceful in this area if they are to exercise their professional judgment and duties in a Chapter 11.

Witnesses and appearances in court
Frequently, the accounting firm will be a major source of information to the court, and you can expect to be called as a witness on any number of occasions as the bankruptcy progresses through the system. (Any witness appearances are subject to normal billing practice.)

You must make sure you are properly briefed before you enter court. At a minimum, you must be alerted to the questions the lawyer will ask you, and to the questions the other side will most likely ask. It can be embarrassing when a complex question that was not reviewed before your appearance is asked in court. You must also be ready to answer those questions that could not be properly anticipated.

Summary
The bankruptcy system welcomes and encourages professionals to participate. A professional should always keep in mind, however, that there is a fiduciary relationship existent throughout the bankruptcy system for debtors and professionals involved with debtors.

Full disclosure is paramount to being appointed as a professional. Fee applications should stand on their own and be of sufficient detail and explanation that any third party with a smattering of knowledge of the case can quickly surmise as to the worthwhile benefits of the professional's involvement. Forecasting and heavy involvement in disclosure statements and plans of reorganization are major tasks which the accounting firm should assume.

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Valuations: A Growth Service

One of the fastest growing subspecialties under the advisory services banner is that of valuations. Although CPAs have traditionally assisted clients in placing values on businesses and practices, it wasn’t until the late 1970s that CPAs began marketing valuation services, rather than just “falling into” them.

With growing competition in the fields of accounting, auditing and taxes, expanding into related advisory and consulting services has become almost mandatory for survival. What better field to enter than one closely allied to the practitioner’s usual services?

The general practitioner already possesses the requisite education and experience necessary to be a valuator. What needs to be done is to take that education and experience and direct it to meeting the distinctive requirements of the appraiser. Hence, instead of being a historian, the CPA-valu­ator must become a futurist who uses the past as a guideline.

To distinguish the roles of the historian and of the futurist, one need only consider the income statement. That statement provides useful information about past profits. Comparative statements may even give clear information regarding trends. A potential purchaser, however, is interested in future rather than past earnings. Accordingly, the CPA-valu­ator will necessarily have to accommodate a purchaser-client by using historical data as a base for determining future profitability.

As with any new service, the first one or two engagements will most likely be worrisome and unprofitable. They will be worrisome because the CPA-valu­ator will lack experience in using the statistical sources and other pertinent references. Regarding the profitability element, the first one or two jobs are really learning experiences, wherein more than a normal effort is exercised due to a lack of confidence. Once the CPA-valu­ator realizes that the technical aspects of valuation are really no more than futuristic perspectives on historical data and that the research material is simple to use, further engagements can be approached with confidence.

Marketing valuation services is not particularly difficult or expensive. There are two target groups to approach, namely, present clients and trade associations in which several current clients are members. The former is an obvious market. The latter is a target because the CPA-valu­ator is familiar with the problems of the association’s members. Word of mouth among members of a homogeneous group provides an excellent and continuing source of business.

Save yourself money with regard to present clients. A simple notice in your monthly newsletter or a well-written letter will provide more than sufficient promotion. Besides, you can reinforce the availability of the service each time you speak to your clients.

Advertising and direct solicitation are not effective tools for obtaining the nonclient valuation engagement, as this is a “when needed” service. Hence, seminars or lectures to a homogeneous group will provide the best coverage. Handout materials and direct personal contact are the best advertisements imaginable. For example, I do not practice public accounting, but by presenting lectures for the AICPA I have exposure to my peers and have been able to develop a practice doing valuations for CPA firms when those firms are not considered independent or when they just do not wish to be involved in performing such services.

The following list, although not exhaustive, covers major areas in which valuations are required or could prove extremely useful:

- Purchasing, selling or merging a business or practice.
- Obtaining debt or equity financing.
- Settling divorces.
- Meeting ESOP or stock-option requirements.
- Establishing buy-sell agreements.
- Planning for estates or giving gifts.
- Preparing estate and gift tax returns.
- Providing litigation support services.
- Allocating costs under IRC section 338.

The methods used: circumstances dictate the choices

In performing the service, the CPA-valu­ator has several alternative engagements that can be offered:

1. Valuing the total business or practice.
2. Separately valuing the tangibles and intangibles to arrive at total value of the business or practice.
3. Valuing tangibles only.
4. Valuing selected tangibles only.
5. Valuing intangibles only.

Item nos. 1 and 2 are more structured engagements, with defined parameters, than the other alternatives. Thus, in valuing a business or practice, valuation theory dictates whether no. 1 or no. 2 will
be used. It also dictates which specific valuation method under no. 1 or no. 2 is to be used. (For valuation purposes, intangibles are those assets that cannot be sold separately from the business, i.e., goodwill.)

If a valid buy-sell agreement exists which covers the circumstances surrounding the valuation, valuation becomes a function of that contract. When no contract exists, a valid industry formula, recognized by the relevant industry trade association, becomes the required choice.

If neither a contract nor industry formula exists, the valuator must consider the size of the company being valued before choosing the valuation technique to be used. A company whose latest tax year-end coincides with or falls within the twelve-month period ending on the valuation date and whose tax return reports net revenues [on line 1(c)] of over $20 million is considered a large company. Those with revenues under $20 million are considered small companies.

Large companies can be valued using traditional approaches or the more modern discounted cash flow method. The traditional approaches are tied to statistical data from publicly held companies in the same field, and derive from IRS pronouncements. (The IRS is the only recognized theoretician in the field of valuation. Hence, when theory is discussed, it is in light of IRS pronouncements, particularly certain revenue rulings.)

When litigation is involved, I suggest staying with traditional approaches. In this way, the CPA-valuator will have case law backing the method. Discounted cash flow is a truly superior method, which, unfortunately, has two distinct drawbacks requiring consideration. (When applied to valuations, the flow refers to that which is paid to the owners, not the flow into the business or practice.) The first drawback involves the lack of case law providing substantiation for litigation purposes. The second involves the fact that few companies, even very large closely held ones, have sophisticated forecasting systems that the CPA-valuator can tap into in order to make the necessary computations.

Small companies are limited to the discounted cash flow method and the formula method when contract or industry-specific formulas are inapplicable. (The formula method, a general overall prescription, requires the separate calculation of tangibles and intangibles. Intangibles are derived from earnings, which consider officers' compensation to be a part of income, as most small companies strip taxable income each year through the mechanics of declaring bonuses.) Of the smaller companies, only a nominal number would be likely to have sophisticated forecasting techniques. Hence, with no contract or industry formulas, most small companies will, by default, be valued using the formula method.

As regards estate and gift taxation, valuation is not dependent upon size. Instead, valuation is performed in accordance with Revenue Ruling 59–60 and, if this cannot be applied, then in accordance with Revenue Ruling 68–609 (the forerunner of the formula method).

Perhaps the most difficult aspect in a valuation practice is the availability of persons who can place a value on the fixed assets, so as to meet client time constraints. Litigation, for example, may demand that a valuation be concluded in a matter of days. It is well to establish a bank of such individuals to ensure that one will be available when tangibles must be valued.

Subcontracting to fixed-asset specialists is necessary because it is the rare CPA-valuator who would be qualified to value equipment. Thus, the CPA-valuator must feel confident that the equipment valuator has the needed expertise and understands which techniques (going-concern value, liquidating value, etc.) are to be used in valuing a particular business's or practice's fixed assets.

**Setting fees**

In establishing a fee schedule, numerous factors have to be considered, namely:

- In valuations requiring the appraisal of tangibles, the more types of tangibles, the greater the time spent in performing the valuation.
- The typical job requiring the valuation of fixed assets will require an expenditure of 25 percent of gross fees for the equipment valuator.
- Most engagements will require the quotation of a maximum fee. Deposition and trial time, however, are usually handled on an hourly basis.
- There is no attest function in a valuation as there is in an audit or review. Should there be errors, management is not a buffer. Accordingly, liability is primary, with the CPA-valuator providing the value and not just attesting to someone else's work. Thus, substantial liability insurance is mandatory.
- The method of valuation to be used will dictate the time required to perform the valuation.

Hence, the requisite valuation method will
usually have to be determined prior to providing an estimate.

□ The reason for the valuation must also be determined. When litigation is involved, abbreviated reports are the norm. When a sale is involved, an in-depth report becomes the norm. Because of the large exposure, the need to carry additional insurance and the need to pay outside contractors to value selected assets, it is not unusual for fees to be set at three to three and one-half times normal billing rates.

A real plus of this service is its tradition of retainers. As people change their minds about buying a business, drop the idea of establishing an ESOP, settle a divorce and so on, the valuator stands to lose substantial revenue, especially when subcontractors are employed. Thus, it is not unusual to collect 50 percent of the fee up front.

The CPA-valuator is an independent professional. Accordingly, the value arrived at might not coincide with an amount desired by the client. To avoid controversy as well as collection problems, many valuators will only deliver reports on a C.O.D. basis.

The above is not intended to be a technical description of the field of valuations. For that I recommend the AICPA CPE courses. Rather, it is to let readers know that they can offer a highly profitable service to their clients, with only a nominal time investment required to adapt their existing skills.

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STANDARDS AND PRACTICES FOR VALUATION SERVICES

In the last several years, there has been a growing demand for and reliance upon professional valuation services by the investment, financial, and general business communities. In part, this is due to the increase in merger and acquisition activity. It is also related to a growing awareness of the benefits of such services. In addition to mergers and acquisitions, professional valuation services are needed for a wide range of purposes, including taxation, investment, financing, transaction and deal structuring, management information, and litigation.

Historically, valuation services have been provided exclusively by appraisal firms. The increased demand, however, has resulted in many non-appraisers such as accountants, consultants, business brokers, and investment bankers providing these services. There is no legal barrier to entry in this business. There is a functional barrier, however—the required mastery of a specialized technology.

Valuation is a service that is professionally compatible with the scope of services offered by public accounting firms. Any accounting firm offering valuation services, however, should fully understand not only the mechanics of service delivery, but also the professional standards and practices of the valuation industry.

Standards and practices

CPAs who provide valuation services should be aware of several key factors regarding the profession. First, there is no legal difference between the terms valuation and appraisal. These terms are essentially synonymous for federal income, gift and estate tax, state property tax, and state divorce court purposes.

While there is no general Internal Revenue Code definition of an appraisal expert, the regulations related to Section 170 charitable contributions present the IRS definition of a “qualified appraiser.”

"In order to be a qualified appraiser, a person must:

☐ Hold himself out to the public as an appraiser,
☐ Be qualified to make appraisals of the type of property being valued, and
☐ Understand that he can be subject to penalties for a false or fraudulent overvaluation statement."

It is reasonable to assume that the Service will apply the same definition to valuations performed for purposes such as ESOP, gift tax, and estate taxes.

There is a specifically defined and established body of knowledge in which anyone practicing appraisal science should be well schooled. This requires continuing education because appraisal science is a rapidly evolving technology. In fact, there have been quantum leaps during the last few years in the quantitative analysis and analytical techniques commonly performed in the profession.

There are numerous encyclopedic treatises on appraisal principles and technology. Many major universities now offer undergraduate and graduate degree programs in valuation science. Certainly, anyone practicing in this profession will frequently refer to Appraisal Principles and Procedures (written by Henry A. Babcock, FASA, and published by the American Society of Appraisers). This book codifies generally accepted appraisal procedures, principles, methodology, and terminology.

In addition, anyone performing professional valuation services should be intimately familiar with the following American Society of Appraisers' publications which encompass promulgated generally accepted appraisal standards: Principles of Appraisal Practice & Code of Ethics and Definitions, Concepts and Principles of Appraisal Practice.

Also, there are nationally accepted appraisal certification programs in the appraisal profession. The American Institute of Real Estate Appraisers grants certification to individuals who practice real estate appraisal—the MAI designation. It requires education, experience, a structured series of programmed course work, and a comprehensive examination.

The American Society of Appraisers grants certification—the ASA—to individuals in several appraisal disciplines, including real estate appraisal, equipment appraisal, and business valuation, inter alia. This certification program requires academic credentials, five years of full-time appraisal experience, a rigorous interview process, review of demonstration appraisal reports, and the successful completion of a comprehensive examination on appraisal principles, theory, problems, and ethics.

Like CPAs, ASAs must fulfill a strictly enforced program of continuing professional education. Like CPAs, ASAs must subscribe to a well-defined set of categorical and specific professional standards. And, like CPAs, ASAs have a professional body for interpreting and policing these standards.

The American Society of Appraisers annually prepares rosters of certified appraisers. For example,
the Directory of Certified Business Appraisers lists all
ASAs who are certified in business valuation. Copies of
these directories can be obtained from the American
Society of Appraisers, P.O. Box 17265, Washing-
ton, D.C. 20041.

Clearly, individuals who obtain such certification
are recognized as professional appraisers. Account-
tants who perform valuation services on an ad hoc
basis should realize that they will be competing
against (in terms of clients, fees, credentials, and
credibility) professionally certified valuation
experts.

Many accountants are reluctant to perform
equipment or real estate appraisals although they
will perform business or intangible asset
appraisals. As mentioned above, there are generally
accepted principles for each appraisal discipline. To
illustrate this, the established procedures regarding
business appraisal require the synthesis of four
methods: (1) discounted net cash flow, (2) capital
market, (3) market data comparable, and (4) asset
accumulation. These four approaches are described
briefly below.

The discounted net cash flow method requires a
forecast of annual net cash generation for a discrete
time period (usually five or ten years). This forecast
encompasses a revenue analysis (including units
sold, average selling price, market dynamics), a cost
analysis (fixed vs. variable, product vs. period, cash
vs. non-cash), an investment analysis (including
incremental receivables, payables, inventory, and
capital expenditures), and a capital analysis
(including optimal capital structure and weighted
average cost of capital components). This last analy-
sis determines the appropriate discount rate. The
discrete cash flow forecast is discounted to a present
value. A residual business value is determined and
discounted. (Frequently, the cash flow annuity in
perpetuity technique is used.) The sum of the dis-
crete forecast and residual value—less the current
value of the outstanding debt (if debt service was not
considered in the forecast)—is the value of the busi-
ness.

The capital market approach values a business
based on what astute capital market investors pay
for comparable publicly traded companies. The first
step is to select a sample of ten or so comparable
public companies (i.e. same SIC code, products and
processes, suppliers and customers, non-systematic
risk components, etc.). Then, determine capital mar-
etk multiples (price/earnings, price/equity, price/
cash flow, price/assets, etc.), and apply these multi-
plies to the normalized financial data of the subject
company. Next, synthesize the several capital mar-
etk value indicators and apply a majority control
premium to the synthesis value. (This control pre-
mium relates to the fact that we are appraising an
overall business entity and not the minority share
interests that trade on the capital markets.) The
adjusted synthesis value is the value of the business.

Market data comparable procedures value a busi-
ness based on actual sales transactions of compara-
ble firms. This necessitates selecting a sample of
comparable businesses that have been sold in the
recent past. To do this, the appraiser must have
access to a source of transactional data regarding
actual mergers, acquisitions, divestitures, and ini-
tial public offerings. To select comparable firms, the
same criteria apply as in the capital market
approach. The next step is to quantify a multiple of
purchase price to owners' equity (or to annual reve-
ues or to total assets) for each purchase transac-
tion, and then to calculate the average price/equity
(or returns or assets) multiple for the sample of
transactions. This multiple is then applied to the
equity (or revenues or assets) of the subject firm.
Since market transactions reflect a control pre-
mium, this derived value is the value of the business.

Asset accumulation (build-up) is an indirect but
frequently preferred method of business valuation.
It requires identifying and appraising all of the cur-
rent assets (except for cash, the appraised values of
these assets rarely equal their historical values) and
identifying and appraising all of the tangible real
and personal property. The next (and most difficult)
step is to identify and appraise all of the intangible
assets (e.g., leasehold interests, patents, licenses,
proprietary technology, customer/supplier/
employee contracts, trademarks and trade names,
goodwill, to name a few). The value of all liabilities
should then be determined.

The value of the business is the difference of the
sum of the appraised values of all assets and the sum
of the current values of all liabilities. To perform
this approach, the appraiser must be familiar with
the techniques of fixed asset appraisal.

The trained and certified appraiser will certainly
use all four approaches to arrive at a synthesis of
value. And this brief description of methodology
ignores the more complex aspects of business valua-
tion, such as fractional interests, convertible
securities, warrants and rights, discounts for minor-
ity blocks/lack of marketability/cost of an initial
public offering, and premiums for majority blocks.

Accountants who provide appraisal services
should be aware that their conclusions will fre-
sequently be subject to close scrutiny (and professional challenge) by administrative, judicial, or regulatory agencies. At Touche Ross Valuation Engineering and Appraisal Services, approximately 80 percent of our appraisal practice is tax oriented. Therefore, our appraisal reports are frequently scrutinized by IRS revenue agents, gift and estate tax examiners and engineers, and by state and local property tax assessors. To withstand this level of contrarian scrutiny, the appraisal analyses must be rigorous and comprehensive, the appraisal reports must be thoroughly documented (in accordance with professional standards), and the appraisals must be performed by individuals with impeccable professional credentials.

In addition, CPAs should realize that they will likely be called upon as expert witnesses in litigation proceedings. These litigation proceedings may involve divorce, tax court, condemnation, tortious damages suits, minority shareholder rights, bankruptcy, and property tax cases. To appear as an expert witness, first the appraiser has to be “qualified” before the court.

The accountant practicing appraisal services should anticipate the following questions during the “qualification” process: What is your specific appraisal training? Do you have a degree in appraisal sciences? How many years have you been practicing as an appraiser? What appraisal licenses and certifications do you hold? What professional appraisal organizations do you belong to? How many appraisal seminars, institutes, or programs have you attended during the last year?

The accountant/expert witness should be aware that the opposing legal counsel will not only question his professional qualifications, but will also inquire as to whether the appraisal was performed in accordance with generally accepted appraisal standards. The expert should be intimately familiar with what constitutes these standards. The appraiser should be aware that the opposing side has likely also hired an expert. And the accountant/expert should be prepared for the opposing expert to be a professionally trained and certified appraiser.

In conclusion, there is a well-established appraisal profession with generally accepted standards and professional certifications. There is certainly plenty of room in this profession for accountants who want to dedicate themselves to it. The quantitative and analytical skills of CPAs are excellent building blocks—when combined with years of professional training, experience, and apprenticeship—for a career in the appraisal profession. The purpose of this article is not to discourage accountants from dedicating their careers to appraisal practice, but rather to offer caveats to accountants who want to practice valuation as a part-time, sporadic, secondary business.

Valuation services are within the scope of practice of public accounting firms. However, these services should be offered only if the practitioners employ the same professional standards and practices (e.g., training and supervision, skills and competence, peer review, etc.) in their valuation engagements that they do in their accounting, auditing, and taxation engagements. With training, experience, and dedication, accounting professionals surely can become valuation professionals. As in any engagement requiring mastery of a specialized body of knowledge and adherence to established standards and practices, professional valuations require valuation professionals.

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FACILITATING CLIENT RETREATS

Much as a partners' retreat can be an effective method for enhancing communication and bringing about constructive change in a CPA firm, so can the technique be useful to clients.

Change is often resisted, and CPA firms sometimes find that an outside facilitator is more successful than a member of the firm in providing perspective and challenging traditions. In a family business, there are frequently a number of situations where you could provide a valuable service by persuading clients to hold a retreat with you as the facilitator. There are three keys to doing this successfully. You have to
- Sell the idea.
- Conduct an effective and efficient retreat.
- Devise an effective follow-up procedure.

Let's look at these in more detail.

Selling the idea

Selling the idea to a small business with one or two owners can be a long, difficult process. You need patience and perseverance. Sometimes you have to be satisfied with just planting the seed of the idea because the business person will respond, "I don't have the time," "It's too expensive," "What do I need that for?" Don't let the prospect of such responses deter you from raising the subject, however.

In conversations with clients, you need to listen for issues that are bothering them and for opportunities to relieve their anxiety. Difficulties might arise because the business is growing rapidly but there is no strategic plan to deal with that growth. The owner laments about this and that, but often the real problem is that key people in the business are not talking to one another.

Small family-owned businesses sometimes have a succession problem. Perhaps the owner is getting older and wonders whom to entrust with the business or whether to simply sell it. Is there a son or daughter? Are there key management people? Would they be interested in running the business?

Business succession is sometimes not discussed because everyone wants to ignore the topic. Or if it is discussed, presumptions are often made based on inaccurate information. These are the types of situations where I think you could sell the idea that a problem exists, that there really needs to be a dialog, and that it needs to be conducted away from the office.

Unless there is a facilitator present at such a meeting, it is unlikely there will be true communication. In the typical small business situation, discussion will be dominated by whomever is the strongest, or the loudest, or has the largest ownership interest, or whatever. Other attendees will just give up, they won't participate, and the retreat will be a waste of time. You need to persuade the client that it is really critical to have a facilitator there.

So there you have some thoughts on selling the idea. You have to plant the seed, let time go by, and listen for opportunities to ease clients' concerns.

How to conduct the retreat

The first step is to decide who should attend the retreat. You will want to have people there who will contribute to its success. Whom could this core group include?

Well, it might include the chief financial officer (CFO). The CFO could be anyone from the bookkeeper to the treasurer. And you may want to have the corporate secretary attend. Now who could that be? Well, again, it could be the bookkeeper in one of the smaller businesses, or it could be some other administrative assistant. If the client is a production-oriented company, you may want the person in charge of production to attend. Decide who the key people are, but don't invite more than five or six—otherwise the group becomes too unwieldy. Between two and six people is about the right size.

Then what you need to do is give them some homework—that is, ask them to respond to a few questions that will help you develop an agenda. These could be questions concerning the direction they see for the company or problems they believe prevent them doing their jobs properly.

The responses will give you some idea of what the key people wish to discuss at the retreat. For example, they may want the meeting to be financially oriented, or want it to focus on strategic planning or the company's mission. Or perhaps they would like to spend time conducting a SWOT (strengths, weaknesses, opportunities, threats) analysis. You can obtain input from the participants as to the company's strengths and weaknesses, what opportunities it is overlooking, and what competitive threats they see. Then add SWOT analysis to the agenda. (You get people to do that ahead of time.)

I usually suggest that clients' retreats be held far enough away from their place of business that it would be difficult for them to just drop by. You
have to discourage that. Aim for two days and one night. Most small business people will say they cannot afford the time for that or the money. The facilities need not be lavish, however. Just rent a room, if need be. And have the client's secretary make the arrangements, so the client can control costs.

If we want clients to listen to us, we must prove we have listened to them.

Most often, I start the retreat by asking what each participant expects to see accomplished by the end of the two days, and write his or her comments down on flip charts. Then I cover the flip charts and ask each participant what one of the others said. (I tell them ahead of time I am going to do this.) Invariably, they don't have it quite right or missed the boat completely as to what the other person really said. I do this to open people's minds toward really listening to one another and to set the tone of the dialog for the whole retreat.

I ask the participants not to argue with one another over some point (it doesn't matter whether they agree with it or not) but to listen and try to repeat what the other person said. I facilitate the retreat on the premise that participants never know on whom I will call. They don't want to be embarrassed, so they really pay attention. If they start to be argumentative or to editorialize, I can stop them and ask them to focus on what the other person is saying.

The follow up
Just before the conclusion, I ask the participants if all the issues they wanted addressed have been covered and if they have, initiate an action plan. Subsequent meetings won't necessarily involve a facilitator, so the plan must say what will be done, by whom, and by when, and who will organize the next meeting.

Someone must be assigned the responsibility for writing up the reports and sending them to all participants within a designated period. There should be no misunderstandings relative to the action plan. As facilitator, make sure you receive a copy, so you can call participants to remind them of agreed-upon actions.

Sometimes you have to be satisfied with clients taking little action, or with their attempting only a portion of what was agreed. The benefit of facilitating the retreat lies in building the client relationship. As a result of the engagement, you will have a better understanding of clients' problems, know what they are up against, and be fully aware of the direction they wish to go.

There are also several dangers in all of this. One is in failing to be non-judgmental. It can create problems if someone feels you are taking sides. You have to make sure there is communication of the other people's points of view, not your own.

The process can be emotional and even involve tears, but there has to be some baring of the soul — some pain in it. If it goes really well, much good can come out of it.

We CPAs get used to telling clients what to do and sometimes forget that if we want them to listen to us, we have to prove that we have listened to them and have addressed their concerns. Your facilitating their retreat gives them a chance to see that.

If clients don't do something in the action plan, don't chide them. You will have a chance later, because of your relationship, to remind them it might be a good idea. And if there are stylistic differences within the key management group, you may be able to resolve these with a mission statement. Sometimes owners don't want to issue a mission statement. But if key people need direction and the owner is not hearing them, this may be the best way to obtain it.

As I said before, a lot of good can come out of facilitating client retreats, but they are not an easy sell. I encourage you to consider it, though. The result might be a new direction for all concerned.

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HOW TO PLAN A SUCCESSFUL MANAGEMENT RETREAT

In today's competitive environment, every organization should consider developing a strategic business plan and establishing goals and objectives for future success. As Louis Pasteur reportedly said, "Chance favors the prepared mind." Having all engines pulling in the same direction is essential today. The best way to begin the process is to hold a retreat at which management reviews the current organization and develops a strategic plan. Following are some guidelines for ensuring that an organization's retreat accomplishes its purpose and fosters the necessary team spirit.

Planning the retreat

It is extremely important to hold the retreat at a location away from the organization's office, with attendees staying overnight at the retreat site. The retreat should last at least two days, and there should be no social event, other than a dinner, on the first night. Some organizations schedule a three-day retreat with an afternoon of golf or other activity. A two-day retreat is preferable, however.

There should be a general retreat theme, such as "What is our growth strategy for the 21st century?" You will need to compile essential annual data, together with the results of operations and comparative statistics. Don't prepare a lengthy agenda and undertake discussion of too many issues, though. Since the purpose of the retreat is to plan for the accomplishment of objectives, discussion should be limited to planning issues.

Who should attend? For the first day of a two-day program, it should be the management team (no more than twelve people). That team should comprise key general managers of divisions and executives.

Using a facilitator

If previous retreats have been unsuccessful in prompting communication and planning, or if this is the organization's first retreat, consideration might be given to using an outside facilitator to direct the meeting and elicit participant discussion of the issues. The facilitator should be knowledgeable in business management, have consulting experience in the organization's field, be familiar with the organization, and furnish references.

Although members of the management team may have no problem working together, they may have difficulty communicating, especially regarding sensitive issues. An objective facilitator can make this communication less difficult. A confidential questionnaire, completed by each manager prior to the retreat, can provide the facilitator with insight into feelings about sensitive issues, and yield information about the organization's strengths and weaknesses. The facilitator should then be ready to address any major problems that exist.

As mentioned earlier, the retreat is for planning the company's future, and the agenda should reflect this. The facilitator should be involved both in planning the agenda and in the discussions, but managers should be assigned to lead discussion of each topic.

Participants should receive copies of the agenda once all details concerning the retreat have been established. Adequate preparation will help ensure the retreat's success.

Review strengths and weaknesses, opportunities, and threats

At the commencement of the retreat, it is a good idea for participants to give a state-of-the-organization report about each business unit to make sure there are no surprises. Following that, the participants should establish long-term goals and determine how they relate to the organization's strengths and weaknesses.

The retreat needs to generate a positive tone, and there is no better way to start the proceedings than to talk about the strengths of the organization. This discussion should involve managers who can contribute valuable information and should be a brainstorming session, with the facilitator listing each strength on a flip chart.

After strengths have been discussed, weaknesses should be reviewed and listed on the flip chart. Each weakness should be analyzed to identify any that could prevent the organization from attaining its long-term goals. For example, a lack of cooperation between managers, with everyone working as independents within the organization, will cause problems in implementing any decision.

The facilitator can lead discussion as to how these issues should be resolved, following which the organization should assign responsibility for improvement to a manager. This session should also include discussions on opportunities for and threats to the organization.

Consideration might be given to showing appropriate videos during the lunch hour or in the evening. Videos, such as "A Passion for Excellence," by Tom Peters, and "One Minute Manager Leadership

The final stages
As the retreat winds down, the last two hours of the second day should be devoted to assigning duties to specific participants regarding decisions made. All new items that require action, plus any uncompleted ones should be listed on a flip chart and tasks assigned.

The minutes of the retreat, with specific responsibilities designated, should be issued to each participant. There should be follow-up during the year concerning the progress of these tasks. Quarterly planning sessions are suggested.

Just before the meeting is adjourned, the facilitator should solicit participants’ reactions to the proceedings and inquire whether other issues should be discussed. Through this process, managers can leave the retreat with a sense of participation, accomplishment, and teamwork.

Immediately after the retreat
Everyone in the organization knows that management has been attending a retreat and is wondering what has happened. There is no better way to continue the retreat’s success than to promptly communicate certain highlights of it to employees at a meeting. There, the organization’s chief executive officer and key associates should disseminate information about the strategic business plan, expansion strategies, and other pertinent subjects. All that needs to be done, then, is to make certain that day-to-day decisions are consistent with what was agreed on at the retreat and that the plan is executed.

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**BUSINESS PLANNING—THE PROACTIVE WAY**

Several years ago, I volunteered to serve on the small-business consulting committee of the AICPA’s management advisory services division. In retrospect, this was one of the most important professional decisions I ever made. Other members of the committee were from small to large CPA firms across the country. Our task was to draft practice aids that practitioners could use to assist clients in improving operations. The reward for serving on this committee for three years was that I considerably enhanced my business advisory skills.

Three of the practice aids produced by this and other committees—“Business Planning,” “Assisting Clients in Maximizing Profits,” and “Identifying Client Problems: A Diagnostic Review Technique”—intrigued me to the point of wanting to create a really effective planning process to help clients achieve their short- and intermediate-term goals and objectives.

My idea was not simply to brainstorm with clients or to participate in an esoteric retreat environment. I believe that both of these processes leave a void. They tend to lack a format which produces an action plan that has measurable accountability in a realistic time frame, normally six months to two years.

Most retreats are of two to three days’ duration and focus on strategic planning. This is a long-term goal-setting process. Small- to medium-size businesses should focus on long-term goals from time to time, but their more important need is for frequent, short-term fine-tuning.

Instead of a typical retreat, I recommend holding several half-day sessions a week or two apart. Halfday sessions helps prevent fatigue and, if held in the mornings, improves alertness. In addition, having time between sessions allows participants to think about the subjects discussed, and to perform any tasks required as a result of the planning process.

I believe that a more active and positive approach to business planning is one that assists clients in determining what is working and what should be improved. I also believe that the process should include all management-level personnel and the owners of the business. The team approach provides the backbone needed for making the planning process a success and, more important, for implementing the plan that eventually evolves. In addition, such an approach provides a fertile environment in which one idea can often be expanded geometrically.

It is essential, however, that the owners and managers of the business first agree to positive discussion ground rules. The most important of these rules is that all participants are equal for purposes of the planning process. They should also be required to play an active role, particularly as the plan affects their areas of responsibility.

Business planning could be done by the owners and managers alone, but would likely not produce the equivalent positive results as when an outside facilitator is involved. The facilitator can provide discussion leadership and objectivity, and more easily obtain volunteers for specific projects and tasks.

**The planning process**

Prior to facilitating a planning session, I interview the business owners, obtain historical organizational, financial, and tax data, and make sure that I have a thorough understanding of their problems, goals, and objectives. I then develop an agenda and submit it to the participants several days in advance of the first meeting.

This agenda is tailored to the specific issues which need to be addressed. Because most business owners have similar objectives, that is, to manage their businesses efficiently and profitably, the

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**Tools for the Planning Process**

When I facilitate a planning process, I like to use flip charts to capture all of the pertinent discussion items, and hang the charts on the walls so that the ideas generated are constantly in front of everyone. I transcribe the flip charts for each session and submit them to each participant. This reminds people to perform tasks for which they volunteered, and allows the chief operating officer to keep track of what needs to be done, when, and by whom. At each meeting, previous transcriptions are edited for changes and corrections, new data are added as generated, and after the last meeting, a final transcription is provided. In addition, I like to chronologically list all projects and tasks in a matrix format as an easy reference.
agenda items are often similar from one business to another.

The first item on all agendas is a strengths, weaknesses, opportunities, and threats (SWOT) analysis. This permits participants, privately and without outside influence, to note their perceptions of how the company rates in each of these areas. These analyses are then contributed at the beginning of the first meeting and serve to develop the criteria of what is working well and what needs to be improved. Activity items are recorded on flip charts to create several objectives for which projects and tasks will later be developed.

The next section of the agenda is concerned with the organizational structure of the business. Many businesses don't have an organizational chart or, if they do, it tends to be ineffective. In any case, it is important to have a functional organizational chart which should be communicated to and understood by all who are in the chain of command.

This is followed by an evaluation of each functional position to determine if the job description is consistent with the activity the position requires. Most often, a project must be developed to draft job descriptions for all positions in the company.

The focus now switches to the main business activity. A mission statement is defined, goals and objectives stated, projects and tasks developed, and assignments with dates for accomplishing them are committed to by the participants. Every functional area is examined. The company's marketing strategy and its competition are evaluated, future economic and industry conditions are discussed and, again, projects and tasks are assigned to overcome weaknesses that are revealed or to take advantage of opportunities that are present.

The human resource function is scrutinized to see if it is administered well and if there is an operations manual or a personnel guide. Compliance with governmental regulations is also checked. All of these areas require satisfactory resolution and the people responsible for them are expected to contribute their ideas for improvement.

One area that could be improved in most businesses is management information. Businesses are better run when timely and sufficient data are provided to decision makers. Therefore, productivity reports, aging analyses of receivables and payables, and complete financial statements with historical and budgeted comparisons are a must. Cash management reports on a daily or weekly basis are indispensable. Nearly all companies can make improvements in this area.

Before completing the planning process, the facilitator and the participants should review the SWOT analysis to determine that strengths are being utilized, weaknesses addressed, opportunities taken, and threats confronted. The implementation process now begins. The facilitator is done for now, but a monitoring system will show that in a year or two, the process will require fine-tuning again.

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Ten Keys to Successful Computer Consulting

Although computer consulting is an easy business to enter, it is a difficult field in which to be successful. Most often, the reason for this is unfamiliarity with some aspects of computer consulting, such as engagement planning and pricing services. In addition, the field is ever changing because of hardware and software improvements and the need for clients to increase their productivity and profitability. This article looks at ten key aspects of successful computer consulting.

Determine at the start the type of engagements you will not accept
One of the biggest traps for computer consultants is to become involved in every opportunity that comes along. In the early, heady days of microcomputers, when so much was happening, consultants could go from job to job. The situation has tightened now, however. You have to pick and choose your work so that you develop a profile for expertise in a given area, and not be known just as a generalist.

Screen your clients carefully
There are a lot of tire kickers out there who will waste your time. Learn the warning signs of a weak client. These include prospects who are unwilling to pay for demonstrations or needs surveys, first-time computer users who don’t know what they want, price shoppers who want the lowest price and don’t want (or don’t realize they need) service and support, and people who don’t pay their bills. As an initial step, always check prospects’ credit ratings before accepting them as clients.

Keep a tight rein on the growth of your consulting business
Some consultants have been burned by adding staff too fast in response to demand. They find they cannot maintain quality. Instead of a few satisfied clients, they wind up with unsatisfied ones and, perhaps, even lawsuits. Also, beware of placing too much faith in one office “superstar” who can gain control over much of the consulting function. There should always be another person who can take over a position.

Make a name for yourself
Write articles, speak at local CPA and consultant meetings, and become active in the special interest groups of the local computer club. Articles and presentations can have a major impact on firm or individual name recognition, and on credibility with clients.

Carve out some niches
If your client base is mostly in the medical field, for example, learn a couple of medical packages. You need to distinguish yourself from other consultants, so make sure you stay on top of at least one specialty industry. Strong areas include point of sale, manufacturing, property management and construction.

Turn your services into products
While services are billable by the hour, products are easier to sell and yield a higher profit margin. For example, a person who can demonstrate a software package may receive $X per hour. By comparison, needs analysis, consultation, follow-up demonstrations, and specific recommendations can be sold as a single product for $500 or more.

Develop strategic liaisons with software retailers and/or vendors
Many software vendors offer certified consulting programs that offer demonstration copies of their software, and training in installation and support. These are attractive to consultants who like a given system and want to make a commitment to it.

Stay current with the industry
Developments in the microcomputer industry are so frequent that without spending a few hours a week reading appropriate material, attending trade shows, and taking courses at state CPA societies, you cannot hope to remain current. Allocate enough time to learn new software that could be useful to your clients. Some examples are financial planning, personal information managers, spreadsheets, and graphics programs.

Don’t overextend yourself into areas where you do not have expertise
It is always tempting to take on challenging work that requires new skills. This is fine, up to a point, but know where to draw the line. If you want to try new areas be prepared to absorb the cost of the learning time, and be frank with the client at the start about your experience with a particular package.

Learn good interviewing techniques
One indispensable skill is to be able to determine the client’s goals and aspirations through effective
Business Consulting Niche

interviewing techniques. Few clients have the ability to really analyze and articulate their automation needs. If your interviewing skills are such that you can determine the client's real goals and priorities, you will know whether this is a viable client or not.

Adopt a long-term perspective. Many people believe that consulting does not provide the annuity that traditional accounting services do. If you have a long-term perspective, however, and a broad range of knowledge, you will be able to generate a stream of ideas that can result in profitable computer consulting engagements.

The opportunities in computer consulting are unlimited for those who truly want to make a commitment to this field. As with other endeavors, a well-thought-out plan and a commitment to the plan are essential for success.

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WHEN TO RECOMMEND A LOW-COST ACCOUNTING PACKAGE

There are often a number of reasons for recommending that a client spend $5,000 for an accounting package, and that is why many are sold. Sometimes, though, a less expensive system (under $500) can do the job adequately and can have the added advantages of a quicker installation and greater ease of operation. Here, we will look at various types of small business systems being sold today, compare their capabilities, and decide when it makes the most sense to recommend one to a client.

There are four broad categories of low-cost systems.

Integrated accounting systems formerly sold at a higher price. Packages such as Peachtree and Cougar Mountain once sold for more than $500 per module. Their prices were lowered to make them more competitive and the companies have succeeded in selling many systems.

Small business, cash-oriented packages. Systems such as ACCPAC Easy and Money Matters are designed for cash basis accounting. One-Write Plus and NewViews can also be run on a cash basis. This makes them particularly suitable for companies progressing from manual one-write systems and for clients who just turn check stubs over to their accountants.

General purpose systems. Systems such as Profit- Wise, One-Write Plus, Peachtree Complete III, DAC-Easy, and Shoebox Accountant offer essential capabilities in general ledger, accounts payable, accounts receivable, and payroll. In addition, Profit- Wise, DAC-Easy, and Peachtree Complete III offer other applications such as inventory control.

Vertical market orientation. A new category is emerging that focuses on a specific industry. Point-of-Sale Plus from RealWorld Corporation offers a sophisticated retail point-of-sale program for under $500. Until now, the cost of obtaining this function was several thousand dollars.

Not all systems are alike

There are major differences between low-cost and high-cost systems that you should be aware of.

Frequency of enhancements. The high-end vendors tend to come out with incremental upgrades about every six months. This is more frequent than for low-cost packages, although significant upgrades of both versions are usually introduced about every two years.

Support. With low-cost packages, support is more of a risk. Some vendors take the position (unannounced, of course) that users who pay only $200 for their accounting systems aren't entitled to much support. They may offer paid support plans, but getting through to support personnel can be a problem. Because vendor support is uneven, this area should be carefully investigated before a purchase is made. For high-end systems, support is expected, demanded, and usually delivered.

Networking. Until recently there were no networked low-cost accounting systems. Now there are several. The majority of low-cost packages, however, will not run under networks.

Third-party integration. Generally, low-cost systems do not integrate with anything other than report writers, ASCII, and word processing files. By comparison, high-end systems often will integrate with a number of vertical packages. Another point to keep in mind is that most small systems offer file export but not file import, while just about all high-end products now have a file import function. This can be important when a client wants a package customized for specific needs.

Features. High-end packages do, of course, offer more functionality than low-cost systems. The additional features available are often not needed by smaller companies, however.

What you get for the money

Capabilities and limitations of low-cost systems can be better seen by application.

General ledger. In most small business accounting systems, you can expect a sample chart of accounts and the ability to enter transactions to any open accounting period. Budgeting features range from budget by period to one annual budget. Packages such as ACCPAC Easy offer subledgers within the general ledger for tracking customer, employee, and vendor transactions. NewViews can track financial data for up to ten years.

Reporting formats are generally limited to what comes with the system. With ProfitWise, however, you have much of the reporting flexibility (but with fewer reports possible) of the full Solomon III system.

Accounts payable. Most systems offer multiple disbursement accounts and a normal distribution account for vendor invoice entries, plus the ability to look up a vendor by name at invoice entry. Cougar Mountain, DAC-Easy, Money Matters, and other packages offer automatic check reconciliation. This can be important to many small companies.
Accounts receivable. In Cougar Mountain, DAC-Easy, and Point-of-Sale Plus systems, the accounts receivable application includes functions ranging from simple after-the-fact entry to full order entry/ invoicing processing. Point-of-Sale Plus has special features for retail operations, in which invoices can be printed from accounts receivable without the need for order entry functions.

Payroll. Many small companies do payroll manually or use a service bureau. Significant cost and time savings can result from an automated internal system, however. Most small business accounting systems offer a full complement of features such as tax computations, a variety of deduction and payment types, check voiding, and printing benefits on the check stub. Payroll report worksheets are a great help to small business clients in preparing quarterly reports.

ACCPAC Easy allows tracking of after-the-fact payrolls in its general ledger, but has no payroll preparation facility, as do most of the other small business packages.

Inventory control. This function has been improved by a number of software vendors. DAC-Easy, Cougar Mountain, Peachtree Complete III, and ProfitWise all have respectable inventory control capabilities. Some of the packages handle LIFO and FIFO accounting, but pricing functions are limited. You can do some simple inventory tracking in Money Matters and One-Write Plus using database tracking features which can be customized according to user needs. Peachtree Complete III offers a purchase order and fixed asset application in addition to the above.

When a low-cost system makes sense
Following are some broad guidelines that should help identify the circumstances for recommending a low-cost accounting system to a client. For example, a low-cost package might make sense:

- When the client is new to automation and needs to experiment with a program to find out what it can do.
- When there is a limited budget.
- For small, stable businesses that are not growing quickly. The risk of such businesses outgrowing the capabilities of a low-cost package is less than for fast-growing companies.
- For cash-oriented businesses. Many small systems that allow for quick, customized data entry are ideal for cash basis companies.
- When needs are concentrated on general ledger, accounts payable, accounts receivable, and payroll.

Do needs assessment before making a recommendation
The main point to keep in mind is that each client's situation must be evaluated on its own terms. Software recommendations should never be based on price alone, but should focus on the client's specific needs and ability to handle the program.

Inexpensive, small business software has greatly improved in the past couple of years. In many instances, clients can get along fine with such systems, particularly if they have no need for order entry, inventory, purchase order, and similar capabilities.  

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THE MYTHS AND REALITIES OF FAMILY-OWNED BUSINESSES

Many professional service firms find that having a family-owned business as a client can be extremely challenging. Sometimes the professionals are asked to help resolve certain business issues and, in doing so, open the proverbial Pandora's box. In the blink of an eye, they are embroiled in controversies, some of which are so bitter they become front-page news. Sometimes, in fact, it is difficult for the professional to ascertain whether the client is the family or the business.

Retention of family business clients can also be problematic because the selection of a professional service provider, such as a CPA firm, often contains a generational factor. The CPA who has provided competent and loyal service over the years is retired (along with Mom and Dad) in favor of someone more compatible with the succeeding generation. This often occurs at the time when the family business has evolved to where it offers significantly more service opportunities to the CPA firm than just tax and audit work.

Almost certainly with such clients, the professional can be confronted with situations and issues that go beyond the expertise and training of a single professional discipline. For example, a CPA might identify a situation where psychological counseling is badly needed. But how can that intervention be realized without possibly jeopardizing the client relationship? What is the best way to tell a father that his pride and joy is an incompetent business manager? What are the chances of the CPA’s escaping, client relationship unscathed, a feud between two siblings, or worse still, a full-blown family brouhaha?

An appropriate question at this point might be, Why would anyone be interested in providing services to a family-owned business? Who needs the aggravation? One answer might be found in estimates that family-owned businesses comprise 75 percent to 95 percent of all U.S. companies and one-third of the nation’s 1,000 largest publicly traded manufacturing firms, and that they generate approximately 40 percent to 60 percent of the country’s gross national product.

More specifically, a recent Dun and Bradstreet database of 9.5 million U.S. companies reveals 56,734 firms with annual sales greater than $25 million. Of these, 45,497 (80 percent) are privately owned and are primarily family businesses. Only when the level of annual sales reaches $500 million does public ownership exceed private ownership.

Even then, 47 percent of all firms listed in the database are privately owned. Before anyone begins developing a marketing strategy aimed at this audience, however, the complexities of issues involved need to be understood.

First, there are three major systems or constituencies that should be recognized:

☐ The family.
☐ The business.
☐ The individuals.

To better comprehend the intricacies of working with these interdependent systems, it helps to visualize three interconnecting circles and imagine that where the lines cross, the possibilities for conflict exist.

Each system has a different and often contradictory agenda. Lacking an understanding of the dynamics involved, a single-discipline professional will likely alienate one or another of the systems. Resolving such issues not only is time-consuming but risks further estrangement.

Sometimes an ad hoc professional relationship develops when, to take one example, a CPA introduces a psychologist to help resolve a certain problem. The professional orientation of the disciplines is so distinct, however, that the relationship may become counterproductive if the client is confused by conflicting advice. Then, instead of being encouraged to take corrective action, the client will become more deeply entrenched in the dilemma and remain unable to make decisions.

If any segment of this elaborate and complex system becomes dysfunctional, one of the most successful intervention techniques is to hold a family retreat using a facilitator who is professionally knowledgeable and experienced in identifying and resolving family business issues.

Much like the retreats for partners of CPA firms, the family business retreat should be conducted off-site (neutral territory) whenever possible. And to encourage and reaffirm family values and traditions, time should be scheduled for recreational activities.

Issues such as family mission statements, strategic planning, succession planning, estate planning, and creating a board of advisors are all best dealt with at a retreat and are matters in which the CPA can provide valuable assistance to the client. It is a good way for the CPA to keep in touch and gives the younger partners in the firm an opportunity to
make contact with their peers in the family business.

For any remedial action to be successful, the most important element of the planning process is to have accurate and specific operational information available. While this may appear obvious, few family businesses have their operations defined, or have a work management system, or even a work measurement system. But without this information, the true potential of the business cannot be properly ascertained and efficiently exploited.

Developing an operational profile of a family-owned business is not easy. Every operational premise of the company must be questioned, verified, and validated. Every major element of “work” must be identified and then challenged as to its appropriateness. Basic operational philosophies need to be reviewed and studied regarding their applicability or possibly their obsolescence.

Following are some general observations of family-owned businesses from an operational perspective.

☐ Profit is not a major consideration.
☐ Financial information is an unreliable management tool.
☐ Commonly accepted management concepts are less effective.
☐ Emotion is a more powerful element than logic.

☐ The problems are rational and the solutions are emotional.

One particular aspect of consulting to family-owned businesses is especially intriguing: The issues can be extremely elastic when facts and perceptions become interchangeable. As previously mentioned, it is not unusual to find a dearth of hard or factual operational information. What one is more likely to encounter is varying interpretations of past events among the managers of the business—both family and nonfamily managers alike. And this phenomenon is not just confined to the business organization. It exists in the family unit, too.

And if the issues are elastic, successfully resolving any problems can be particularly difficult and frustrating because the professional is often trying to incorporate rational solutions into an emotional environment. In such situations, it may make sense for the CPA to develop collaborative relationships with other professional service providers who are skilled and experienced in dealing with the unique and complex issues encountered when working with a family-owned business client.

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In recent years, attention has shifted from the large, publicly held corporation to the smaller, closely held business. The closely held business is typified by the family business—an enterprise comprised of more than one household, or more than one generation actively involved in the business. The family business embodies two characteristics respected in American society—entreprenuership and family virtues.

The successful family is tightly structured, has pride in its past, and commands love and respect from its members. Each member is encouraged to be self-sufficient, but also to maintain a strong affiliation with the family group. At its best, the family pulls together toward common goals and promotes a happy, rewarding life.

The successful family business has many of these same characteristics. Managed through the cooperative efforts of family members and other employees, all striving toward common goals, it is people-oriented, yet well-disciplined, engenders pride, and, with proper planning and good fortune, can be self-perpetuating.

Further, the family business is cost efficient. It provides employment to family members and helps build a legacy in the form of net worth, which can be passed on to succeeding generations. A healthy, profitable business contributes directly to the health and well-being of the family.

It is not a matter of size or sophistication that sets the family business apart from its publicly owned counterpart. Indeed, some family-owned businesses are giant enterprises, even market leaders, and the individuals operating many of them are the products of highly acclaimed business schools. Rather, the difference between family businesses and publicly owned ones is the makeup and balance of owners and managers.

In the corporation, the stockholder group is usually widespread and well-defined, in that the precise interest as defined by number of shares held is known. The family group is small by comparison, and its makeup and interests are often difficult to quantify.

In the family business, management and family are intertwined. Often, what drives the business is the personality and value judgments of the owner. Sometimes, when more than one owner is active, conflict arises because the owners have different approaches to the business.

Irreparable harm can result when an operational balance between business and family is not maintained. The owner must recognize such imbalances and deal with the issues of individual ego, jealousies, and lack of talent in the business. These matters should be dealt with on a continuing basis, but certainly at two critical junctures in the life of the business: when bringing in the next generation, and when getting out. It is often difficult for the owner/parent to be objective in these situations, though. This is the time to act as the client's counselor as well as CPA.

**Bringing in the next generation**

The decision of whether to bring the next generation into the business and of whom to bring in differs markedly between first generation ownership and owners who have themselves succeeded their elders. In the latter situation, there is an element of tradition which often overshadows attempts to objectively evaluate the younger generation. The longer the line of succession, the stronger the pull of tradition.

Tradition-bound companies notwithstanding, the most far-reaching decision a business owner makes is that of opening the company to other family members, particularly offspring. Usually, the introduction of the child begins innocently as an opportunity to provide extra money during school vacations. The child is accepted by the employees, and formal entry to the business as a full-time employee seems the natural course. The child is spared the process of choosing a career and obtaining a job, and it is a matter of pride and convenience for the owner/parent.

The decision to hire the child should not be taken either as a matter of course or as a family obligation, however. Unlike a nonfamily employee, the child cannot be fired without seriously jeopardizing the
operational balance. This balance is best served if, through the introduction of the child,

- The business is stronger because of more depth in management, or because of new ideas or more energy.
- All persons benefit—the child has a career path and the owner can pursue his or her own interests.
- The family is more secure through additional opportunities to accumulate wealth.

Because the decision to bring in the next generation is often not based upon an objective evaluation of the child's talents and interests, one way to bring some objectivity to the hiring process is to recommend that the child first work for another company in the same or an allied field. This provides the parent with an opportunity to view the child in a similar business environment, and provides the child with experience to bring to the family business.

In addition to appraising talent, the owner/parent should recognize and deal with differences in temperament and personality. Where such differences cause communication difficulties between parent and child, the problem will likely be exacerbated rather than diminished through the introduction of the child into the business.

Another important consideration is the potential for business growth. With little or no growth, there could be more people to share the same profit, and discouragement of nonfamily managers who see their own options dwindling. The owner should anticipate the effect of additional members on staff. If it becomes apparent that only family members will occupy the top positions, talented staff may choose not to work for the firm.

Plan a career path
Once in the company, there should be a planned career path for the child. This might call for a brief stint in each of the major areas—marketing, production, warehousing, finance, etc.—to "learn the ropes" from knowledgeable employees. It does not call for survival training on the shop floor or delivery truck, as such experiences can be demeaning and counterproductive. The company is hiring an executive, not an hourly laborer.

Conversely, the child's position does not bring automatic entitlement to an officership and plush corner office. This, too, can be counterproductive because it signals to other employees that merit is not the way to the top. A middle course—one which a nonfamily executive-in-training might undergo—is the preferred way.

Are there special considerations for bringing in sons-in-law? Definitely yes. A son is always a son, but a son-in-law...one doesn't know. If the operational balance is maintained—that is, if the business can utilize the person's talents, if the individual can experience a rewarding career, and if the family group is satisfied—then hiring a son-in-law might work out fine. One cannot ignore the possibility of divorce, however.

Although there are exceptions, divorce most often means the departure of the ex-son-in-law from the business. Often this is accompanied by demands for a financial settlement if he is not a stockholder, or months of rancorous negotiations and lots of money to get rid of him if he is. There is one clear message you can give the owner/parent: Transfer stock to your daughter, but not to your son-in-law.

In summing up the matter of bringing in the next generation, I wish to cite my own experience. I joined my father-in-law's firm right out of the armed service with no direct business experience. Because the firm was small—about eight employees—I had to rely on my father-in-law to teach me. He had no plan for doing so, however, nor had he any clear idea of my function or how I was to fit into the organization. Further, he had no desire to expand the business. Not surprisingly, I spent only a few years there before moving on to my own career.

Were he my client today in a similar situation, I would advise him to take the following steps, the first of which would occur even before making an offer of employment:

- Evaluate whether the business has the growth potential to support more than one household.
- Analyze his own feelings about business expansion, delegation of authority, and sharing of leadership.
- Evaluate the effect upon the family to determine whether such employment would be a positive step in maintaining family unity and prosperity.
- If all the answers to the above are positive,
suggest that the son-in-law work at a larger company in the same field for a few years, subsidizing him if necessary.

□ Plan his introduction to the family business and obtain his agreement with the plan.
□ Finally, establish a suitable working relationship, including a mutually agreeable growth plan for the business and a definition of the respective roles in achieving the plan.

This program would be the same whether the new member of the firm were a son, daughter, son-in-law, or other relation. ☑️

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THE FAMILY BUSINESS: BUILDING THE FUTURE (PART 2)

The first part of this article, in the April issue, dealt with the owner/parent's maintaining an operational balance between business and family when bringing the next generation into the family business. This part will focus on methods for the owner to get out of the business. To illustrate these methods, let's consider a composite of actual situations that faced some owners of family businesses.

The business is the H.P. Smith Company, manufacturers of garden shears. It is wholly owned by George Smith, 59, son of the deceased founder. His two married sons are vice-presidents. The company has always been profitable, but revenue growth has flattened in recent years, and annual profits have been small. The company's products are well respected, but foreign competition has made inroads to some traditional customers and lowered profit margins.

While George has not made definite plans or discussed his thinking with anyone, he has always assumed that one day his sons would take over the business and he would retire. While there are a number of long-term, trusted, nonfamily managers in the business, he worries whether the company, under his sons' management, could hold its own against competition and continue to provide the family with a comfortable standard of living.

George is also in a quandary about his own desires and personal plans. He thinks he should retire, but he enjoys the business and the time spent at the plant more than playing golf or going on vacation. He does not need to work because he could manage fairly well on his profit-sharing funds and investments. Any significant rise in the cost of living would have a severe impact, however, and George would like to have either an additional retirement income or the proceeds from the sale of the business.

The company is marketable. After consulting with his accountant and banker, George estimates that the business and its real property could fetch $2.5 million, from which he could clear $800,000 after debt and taxes. He also believes he could obtain employment contracts for himself and his sons. The possibility of a sale has drawn a negative reaction from the family, however. What, then, are George's options? As his CPA, what do you tell him?

Basically, George can do one of three things:

☐ Develop and implement a plan to turn over operations to his sons, as well as arrange for a future transfer of stock. He would phase out his involvement and become inactive in the business after a certain period.
☐ Arrange for a sale of the business with suitable employment contracts for the principals.
☐ Do nothing for an indefinite period.

From the business viewpoint, a sale might be the most advantageous option. It obviates the future exposure of the company in a tougher marketing environment with a management that may not be up to the task. A larger, better-situated parent company could probably achieve a higher return. The negatives to this option would include the possibility that staff might be cut, or the whole operation consolidated with some other facility. The company would sooner or later lose its identity, and this could be a bitter disappointment for the family.

From the family standpoint, the other relatives would prefer the transfer option. Being removed from company operations, they don't know about problems that must be faced, and would most likely think that if current management can't deal with the problems, then it's time the younger generation took charge.

From the personal standpoint, either a sale or a do-nothing option would be preferred by George. A sale with employment contracts would provide him with his job, for a limited time, plus financial security (assuming a cash deal). His sons, however, would prefer the transfer option so that they could have their chance at running the company.

From an outsider's perspective, a well-negotiated sale would seem to offer the most benefits to the owner and his family. It is George who must decide, however. Perhaps family pressure to transfer control, pitted against his personal fear of that option, will cause him to do nothing. This, in fact, is how many such quandaries are resolved. Let's assume an owner does want to transfer control, though, and look at some ways this might be achieved.

Techniques for transferring control

The transfer of control varies proportionally with the degree of confidence the owner has in his successors. A graph of this condition is on page 7.

The ideal time to begin planning succession is at the point where the two lines intersect. Because both lines exist primarily in the mind of the owner, there is a tendency to make their slopes more gradual, postponing the time for definitive planning.

If the owner dies or becomes incapacitated without a plan in place, ownership and control of the
business would pass to the heirs, normally the wife and/or children. A surviving spouse would normally inherit the stock. There may be no immediate estate tax consequences, but the spouse is now burdened with the business and must decide on its future course. If children are in the business, they would likely run it—perhaps not the wisest business decision. If no children are in the business, it would probably be sold, and selling under distress conditions could produce less-than-desired results.

If there is no surviving spouse and/or the children inherit the stock directly, there could be substantial tax liability, often greater than the cash availability. Further, if some of the children are in the business and others aren't, their personal objectives could be quite different. The former might wish to perpetuate the business and enhance their careers, while the latter might wish only to remove their tax liabilities and maximize their cash. This could set up a confrontation among the children, the effects of which might last their lifetimes.

Transfer of ownership can be accomplished much more satisfactorily with planning. The owner must first establish objectives, then determine and choose an available alternative and, finally, execute the plan. If the objective is to transfer stock to one or more children, a number of options are available, including:

☐ A **gifting program** in which stock is gifted to the child or children over a period of years. This is best accomplished before the business achieves a significant net worth, as more of the stock can be transferred without incurring tax.

☐ **Buy-sell agreements**, which can cover cross-purchase of stock among family members, or other variations such as a stock redemption program to buy stock from family members through the corporation.

☐ **An employee stock ownership program (ESOP)**, a device for transferring stock to corporate employees, owner's children included, which avoids current taxation on the transfer.

The above are but a few of the techniques available to owners who wish to plan, and are merely a means to an end. The important point is to identify the end objective and not leave the disposition of the business to others.

The importance of consolidating stock in the hands of a limited number of individuals is often overlooked. If stock is divided evenly among children in each generation, it could easily be held by 20 or 30 individuals in less than 100 years, and make any sort of unified family control almost impossible. Consolidation is also important in situations where some of the children are involved in the business but others are not.

A **suggested planning method**
The best method would be one that involves all family members who have or will have a right to share in the business. It requires them to be (1) willing to accomplish a plan, (2) able to communicate reasonably well with one another, and (3) willing to appoint a "facilitator."

The facilitator is someone outside the family who is trusted and has the skills to conduct the planning program. He or she would begin by speaking with family members and key, nonfamily employees, to obtain company background information and a feeling for the family's objectives. Following this, the facilitator develops a program of planning meetings in which the future course of the business and the role of family members would be discussed. Often,
questionnaires are circulated prior to the meetings in order to determine participants' thoughts.

Much like partners' retreats, such meetings are best held at locations which are free from outside distractions. The participants should follow a prescribed agenda and exchange views on such matters as the future growth of the business, requirements to achieve such growth, opportunities for family members, and management succession. A written plan should be prepared at the end of such meetings which would describe each step to be taken to achieve the stated objectives.

DON'T LET SUCCESSION PLANNING FAIL

Does this scenario seem familiar? You finally convinced the owner of a thriving family business to tackle a succession plan for the business. You designed a detailed plan to satisfy his stated objectives with maximum tax efficiency, but when you met to review the plan, the owner didn’t share your enthusiasm. He agreed that each step seemed logical, but left the meeting without committing to put the plan into action.

Many business succession plans are never implemented, in spite of a motivated client, a competent attorney, and a tax-efficient plan that seems to address the client’s needs. This is often the result of issues which, if ignored, can undermine the effectiveness of the CPA’s service.

There are three common reasons why CPAs create succession plans that cannot succeed:

☐ Confusion over who is the client.
☐ Biases, stemming from the CPA’s own stage in life and personal experiences.
☐ Reluctance to put the client relationship at risk by bringing up taboo subjects.

CPAs also tend to overlook opportunities to provide billable services that help the family and the business prepare for transition. Careful consideration of these factors can help turn proposed plans into successful transitions and assist in retaining the client.

Who is the client?
Players in the succession planning process include the business itself, the owners, and the successors, who typically are the children of the owners, but who also might be a group of nonfamily key executives. But which one is the client? Is it the family business owner, whom you may have been serving for ten or twenty years? Is it the successors, who may or may not consider you to be their business advisor? Or is it the business itself? Ignoring this potential conflict of interest can doom a succession plan, no matter how sound it is.

This wasn’t an issue before succession planning began. In fact, you may have prepared income tax returns for the business, the owners, and the probable successors with no problems at all. But then, you knew who the primary client was. It was the owner who made all the important decisions for the business. Once succession planning begins, however, serving diverse constituents becomes complicated. Should your role be to protect the interests of the owners as they think of retiring, should it be to preserve the viability of the business, or should it be to get the best possible deal for the successors?

The sage advice a CPA would give to aging owners may not serve the business’ best interests. An accountant who considers the sixty-five-year-old family business owner to be the primary client might recommend an all-cash transaction, to minimize the client’s risk. That advice probably would rule out a redemption, however, and rarely do the children of a family business owner have the personal wealth or borrowing power to pay their parents in cash.

If the business is the client, a redemption plan with a small down payment and a long-term installment note might fit the cash flow of the business. But the successors might see that the plan would leave them forever indebted to their parents, and a sizeable note on the company’s balance sheet could restrict its borrowing power.

The CPA who wants to retain the client after the transition could see the successors as the client, and might recommend that the parents gift their stock outright to their children. Parent-owners typically cannot afford to give away their most valuable asset, however, and don’t want to pay gift tax. In addition, gifts do not test the children’s commitment to the business, and often come with strings attached. Given these conflicting issues, where should you focus?

Experience has taught that the primary client must be the business itself. Business succession planning assumes that the ability of the business to flourish in the future generates opportunities for the family and, therefore, is in the best interests of the owners and the successors.

Succession requires change, and people often resist change. Your challenge is to present change in a way that protects all the interests. It certainly is possible to structure a plan that both addresses the owners’ and successors’ financial and emotional concerns and fosters the survival of the business. For example, an installment sale transaction can have default provisions to guard against an erosion in the company’s financial health. Such provisions protect the seller and encourage the transition.

Both selling to a third party or keeping the business for successors appear to require sacrifice by the seller. Selling out may provide the owners with a considerable amount of money, but selling a multigenerational business can be a tremendous blow to family unity and identity. On the other hand, trans-
ferring to successors may seem a sacrifice in terms of cash and financial security. If the owners and successors can agree to make small, personal compromises, with the overriding goal of the long-term health of the business being paramount, then a successful plan can be created. Clients should be willing to subordinate their self-interest for the sake of the business and the family.

**How do your biases affect the plan?**

Just as an aging owner and a young successor have conflicting attitudes about risk and other issues, an advisor's age and career stage will predispose him or her to certain biases about succession planning. These biases, if not addressed, can interfere with a client's successful transition.

For instance, young CPAs, who are years away from retirement, may not be sensitive to the aging owners' emotions and needs. Older accountants, who may be grappling with their own succession issues, may be more inclined to focus on the owner-client's need for security and recommend selling the business to a third party, or worse, dealing with succession through a will or living trust.

Holding on to the business until death is risky for the family (even if the owner has a will or living trust). When a succession plan is death-driven, the ownership transfer may be delayed until the beneficiaries are themselves in their fifties or sixties. That is not an ideal time for successors to take on an entrepreneurial challenge and keep the business growing. A testamentary transfer often results in the business ultimately being sold — to pay off estate taxes, to resolve family conflict, or just because the successors are ready to retire.

But aging owners often find it difficult to let go of the business for many reasons, not the least of which is that life expectancy is increasing. The National Institute of Mental Health projects that in the next century, the average life expectancy will be eighty-five. If the owners retire at age sixty or sixty-five, they potentially would have twenty or twenty-five post-retirement years ahead of them — fully a fourth of their lives. Letting go of the business would require them to find a secure stream of income to provide for those years, as well as meaningful activities to fill their days.

Reluctance can also stem from modern-day complications in family makeup. Today we have single parents, step-parents, step-children, half siblings, caretakers, and caregivers. Result: Selecting a successor isn't easy (if it ever was). What happens when the step-children are more competent than the blood line? Or when adopted children are better leaders than the biological children? These are difficult decisions to make. Not confronting these issues deprives everyone of opportunities.

Advisors cannot assume that the options which appear most attractive to them at their present stage of life are the appropriate solutions for the client. It is critical for you as the CPA to take account of your own biases so they don't cloud your clients' decisions.

**How do you address sensitive issues affecting the plan?**

An owner's interest in preserving the business permits you — in fact, requires you — to raise challenging questions, some of which may be taboo in the family. For instance, are the chosen successors competent and ready to assume ownership and management of the company? Is the current owner willing and prepared to let go of the reins? Will children who do not work at the company receive an equal ownership share? What are the expectations about who will own the company? What's the long-term view and what are the expectations about who will make day-to-day operating decisions for the company?

Avoiding such issues is often the biggest obstacle to implementing succession plans. While the owner probably has made strategic business decisions unilaterally in the past, that won't work when it comes to transition decisions. When the parents make decisions that affect their children's future without involving these same children (and their spouses) in the process, and the younger people don't like those decisions, chances are the plan will never be implemented.

If you're not comfortable bringing these issues to the table, you should find someone who is. In order to keep the business in the family, the family will have to deal with its emotional business. Experts who facilitate family transitions can help.

Of course, conflicts will arise, but conflicts aren't the problem. It's the reaction to conflict that usually causes a problem. Conflict gives people an opportunity to learn to manage their differences. Many CPAs worry that if they don't side with the owner — their long-term client — they will lose that client. But the truth is, failing to help all the business stakeholders tackle conflicts will likely result in the succession plan's failing. That can result in a failed business or a third-party sale. Either way, you lose
the client.

Consider, instead, taking the position of representing "the business." You may offend the owners and lose the client, but, more likely, you will help them align their thinking, which in turn, will help them preserve the business for the next generation or for key employees. As a result, you may have an ongoing relationship — and one that's stronger, at that.

Don't overlook a profitable opportunity
As a CPA, you should look into developing new value-added services (and sources of revenue) from present clients. After all, as more and more post-World War II entrepreneurs approach retirement, your client base may be dwindling. The more clients avoid following through with succession plans, the more likely it becomes that their businesses will ultimately be sold or liquidated. The more likely, then, that you will need to spend time marketing to generate new business. So in addition to marketing for new clients, you should be scouting for more and continued business from your existing client base.

One valuable service is to help the next generation and/or key nonfamily executives develop a comprehensive plan to keep the business independent. A transaction can be structured to match the price available from outside parties, and to reduce the risk and sacrifice for owners considering selling the business to them.

You can also help the next generation articulate its vision and mission for the family business and act as mentor to educate successors about the financial requirements of running the business. You can work out cash-flow projections that predict what the business will look like under certain conditions and, by doing so, provide services the client appreciates. This will help you build a stronger relationship with the successors.

Don't let your clients' succession plans fail because you didn't deal with sensitive issues that are within your control. You can provide a valued service to family business clients and enhance your client retention on a basis that is profitable both to them and to you. 

— by Mike Cohn, The Cohn Financial Group, Inc., 5080 North 40th Street, Suite 235, Phoenix, Arizona 85018, tel. (602) 468-9667
PARTNER AND CLIENT SUCCESSION ISSUES

No client will be a client indefinitely, any more than a partner will always be a partner. Failure to acknowledge this fact of life can ultimately lead to the failure of a CPA firm. In order to sustain the practice, the partners must continually build the client base. They must also take steps to ensure the firm continues by protecting the current client annuity through a formal partner/client succession policy.

Surprisingly, many firms don’t have formal succession plans in place. Such plans are of paramount importance today, because client services increasingly depend on building relationships. Without a well-thought-out succession plan for a retiring or withdrawing partner, the future annuity is precarious.

An older partner may have a strong rapport with the founder and president of a client company. A younger person will eventually take over the reins of that company, however, and may have nothing in common with the older partner. The CPA firm’s formal succession plan should ensure that another partner has established ongoing business relationships with the heirs apparent at the client company.

The important point is that when either a partner or a client is due to retire or become less active, the CPA firm should have a formal plan in place to ease the transition and help in retaining clients. Succession planning should be part of every firm’s strategic plan.

The two exhibits presented here are documents from a booklet, Partner and Client Succession Issues and Plan, that I prepared to help ensure a smooth transition. Exhibit 2 (facing page) should be completed by the retiring partner three years prior to the retirement date. The other document (this page) should be completed for each client identified as one the firm might lose, due to lack of succession planning. Using these forms will draw attention to the client base the retiring partner represents, and the impact the loss of these clients could have on the firm.

The transition

Time is the best ally a firm has during the transition. Your formal succession plan should require a retiring partner to notify other partners at least three years prior to the date of the intended retirement. The retiring partner might also be asked to make suggestions as to which successors would most likely be able to maintain the existing client relationship. (Don’t rule out bringing new talent into the firm, if necessary.) Candidates should be approved by the managing partner or the executive committee.

Once successors have been selected, the retiring partner should discuss with them all aspects of the client relationships. This would include the history of each relationship, descriptions of the client business, details of recent engagements, and various problems and needs. The successors should be introduced to the clients at planned meetings, and should attend such meetings regularly with the retiring partner by the second year of the transition. As the process continues, they should become involved in day-to-day communications and be ready to handle every aspect of the client relationship with the retiring partner increasingly assuming a supervisory role.

In summary, if firms protect their client annuity by implementing formal succession plans, they greatly improve their chances of retaining clients.

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Exhibit 1

Client Succession Planning Document A*

| Partner: ____________________________ |
| Name of client: ___________________  |
| Please state current status of transitioning account: |
| __________________________________________________________________________|
| In your opinion, please state the strategy for maintaining or improving client relationship and continuity, e.g., who should be the next partner and manager assigned to the engagement to ensure continuity. |
| __________________________________________________________________________|
| Other comments (including likes or dislikes of owner or management): |
| __________________________________________________________________________|

*To be completed by the Engagement Partner for each client marked (4) on the Client Succession Planning Document B.
**Client Succession Planning Document B**

<table>
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<tr>
<th>Client name</th>
<th>Years as client</th>
<th>Client* retention rating (A)</th>
<th>Annual fees Audit, Tax, MAS, Total</th>
<th>Owner Name</th>
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<th>Name &amp; age of next partner (if known)</th>
<th>Engagement partner name</th>
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**Client Retention Rating (A)**

1. Excellent opportunity to continue servicing client for several years.
2. Average opportunity to continue servicing client for several years. Client could change due to recent complaints of bills, lack of service.
3. During next 3–5 years, the firm could possibly not represent client due to potential sale of business, poor financing, health, age of client.
4. Vulnerable due to lack of succession planning with second generation.

*For each client rated (2, 3, or 4), complete the client succession planning document A.*
upon the retirement or withdrawal of partners. Making sure existing relationships are protected and younger partners are building relationships with the future leaders of client organizations are important steps in ensuring the annuity is available to provide for retirement payments. — by Robert J. Gallagher, CPA, R.J. Gallagher and Associates, Inc., 4315 One Mellon Bank Center, 500 Grant Street, Pittsburgh, Pennsylvania 15219, tel. (412) 281-8559
Family wealth can be a mixed blessing. No matter their age, the children of successful parents are sometimes ill-prepared to deal with bequests of large amounts of money. In addition, intrafamily loans have a knack of bringing simmering resentments to a boil and breeding sibling jealousies that continue for years.

Of all professional advisers, CPAs are in the best position to help clients avoid letting their wealth erode family relationships and can advise them on using it to strengthen family bonds. Following are six suggestions in this regard that should add value to your current client service, and potentially make your job easier, to the extent any such family conflicts over money dissipate.

Suggest clients establish clear criteria for family loans. Business owners should not treat loans as a referendum of their love for or trust of their children. Loans should be made in a businesslike manner. If a client wants to help a family member finance a business venture, he or she should insist that the borrower present a sound business plan showing (1) how the money will be used, (2) cash flow projections, and (3) a schedule for repayment. You can assist the client in developing procedures to ensure consistent and timely repayment.

Encourage clients to communicate their feelings about money. People view wealth differently. If clients regard money, basically, as a means of accomplishing goals, they will probably understand that other family members may have values, styles, and objectives that are different from their own, but which they can support. You might even recommend holding a family meeting (with rules of order) to discuss the family's wealth, its origins, and how the family might best perpetuate its heritage.

Suggest clients pay relatives their open-market worth. Generally, in business, compensation is based on an individual's performance, skill, and competence. This is not always true in a family business, however, where family members are often paid equally, despite differences in expertise and commitment to the business. Such practice sets up conflict and resentment.

To avoid such problems, you might suggest to business-owner clients that they insist all family members work for an outside company before they join the family business. This will not only enable them to develop valuable skills, but they will also be exposed to more realistic assessments of their worth in the marketplace.

Enlighten clients about teaching stewardship to the next generation. When unprepared relatives inherit considerable wealth, they often don't know how to manage it responsibly. To teach family members about stewardship, one suggestion you might make to business-owner clients is that they take advantage of the gift-tax exclusion (IRC Sec. 2503(b)) to make annual gifts to their children, with suggestions as to the amounts they invest and donate to charities of their choice before they spend any of the money. The idea is to make suggestions that can help close any rift that has grown between siblings who are involved in the business and those who are not, by establishing a common interest that requires them to cooperate.

Warn clients not to use trusts as a mechanism of control. When clients treat their children as though they were immature (by setting up trusts in which the children have no say about investment decisions that affect their inheritance and are not allowed to learn from their mistakes, etc.), this can have the opposite effect from what was intended.

You might point out that a trust should not prevent younger family members from gaining experience in managing money, and that this experience can only be obtained if they are free to make mistakes. In addition, threats of disinherence (for disapproved behavior) do not promote family harmony or prepare people to handle money wisely.

Recommend the use of shareholder agreements with lifetime exit provisions. Often, family wealth is transferred in the form of illiquid business assets. Disagreements over how the company is managed or how and when profits are distributed to shareholders can provoke tension between family members. Recommend that shareholder agreements contain provisions so family members who are inactive in the business can realize value, and those who are not happy in the business can be bought out.

Family conflicts over money are sensitive issues. Nevertheless, this is an area where the CPA can both help current business-owner clients and build a stronger relationship with their successors and other family members. You can provide a valued service by helping clients avoid such problems. This should be profitable both for them and for you.

— by Lee Baumann Cohn, CPA, and Mike Cohn, The Cohn Financial Group, Inc., 5080 North 40th Street, Suite 235, Phoenix, Arizona 85018, tel. (602) 468-9667
IMPROVING WHITE-COLLAR PRODUCTIVITY: A NEEDED SERVICE (PART 1)

Thrust into a competitive world, many CPA firms augment their traditional services by branching into other areas. They often realize big revenue gains from consulting fees and find that consulting services add a dimension that stimulates business and becomes the focal point of their marketing efforts.

The consulting services a firm provides should be carefully selected to satisfy, among other criteria, these three. The services should be

☐ Needed by the client.
☐ Profitable to both client and practitioner.
☐ Unique (ideally) to distinguish the firm from its competition.

Operational auditing to improve white-collar productivity is a service that goes a long way toward meeting these criteria. As well as being needed, it has proved to be profitable to both client and CPA and, as a result, enhances the client relationship and solidifies the traditional services. Also, few CPA firms focus on this service area.

It is not unlikely that clients who experienced growth during the 1960s and ’70s would be conditioned to believe that to increase profits they must increase sales. This philosophy was practical during that period because they probably experienced a booming demand for their products and services. But what has happened to these clients during the 1980s? Many of them find they are in a different ballgame—that competition has increased and demand for their products has declined.

These clients must now refocus their thinking. Rather than increasing sales, they should be encouraged to improve productivity and reduce costs. They need to be reminded that this approach can have far greater impact on profits than increasing sales can. It may help to point out, for example, that if their profit margins are 20 percent, it will take five times as many sales dollars to improve profit as much as one single dollar of cost reduction would.

Productivity issues do not just concern manufacturing operations. Based on my professional experience, I believe that the white-collar arena has the greatest productivity problems and, therefore, offers the greatest opportunity for improvement.

Over the years, management’s attention has normally been directed to production and sales. Industrial engineers thus largely concentrated on improving productivity in the manufacturing sector. This focus may have been appropriate for an industrial labor-intensive society, but not for the service-oriented, knowledge-intensive one that is developing. Studies indicate that the white-collar work force is operating at a less-than-50 percent efficiency level although management expects 90 percent efficiency from its blue-collar work force.

The way to improve clients’ white-collar productivity begins with an operational audit. During this engagement, productivity can be viewed from either a macro or micro perspective. The first approach views the overall efficiency and effectiveness of the client’s organization, division, or even department. The second perspective evaluates each individual task performed. The following discussion will focus on productivity in a micro sense for two critical reasons:

☐ Macro productivity measurements are simply the sum of all micro productivity measurements. Therefore, to improve productivity in a macro sense, we must first improve it in at least one micro sense.
☐ When you are viewing productivity problems from a macro perspective, you run the risk of accomplishing nothing. Although the recommendations may be good, the issues are often too broad for the client to tackle and won’t be implemented.

Let’s look at the difference between the two approaches a little more closely by exaggerating the nature of the recommendations that might evolve. For example, as a result of a macro operational audit, it might become evident that the client needs to

☐ Develop a cost system.
☐ Reduce overtime in the accounts receivable department.
☐ Automate inventory control.
☐ Develop work standards for data entry.

Each recommendation is so broad that it actually becomes another engagement. Although the problems have been identified, nothing has improved as a result of the study.

It will be more valuable if clients can easily implement the recommendations. For example, as a result of a micro operational audit, you might recommend that a client

☐ Eliminate an existing procedure that is either duplicated elsewhere or just not necessary.
☐ Combine two related tasks to avoid duplication of effort.
☐ Change the sequence of events to expedite the process or improve quality.
Add an up-front control or in-process inspection to minimize costly defects or rejects.

Alter the components of a product or service to produce it more cheaply or with better value. These recommendations are smaller in scope, and a client is more likely to identify with them. What appears to be an overwhelming task has been reduced to specific short-term goals. As a result, the client can make changes and experience immediate benefits.

To conduct an operational audit by viewing productivity from a micro perspective, you must first identify the problems. Here, the client will generally help by expressing concerns, for example, about:

- Increased overtime.
- An excessive number of returned items.
- Production bottlenecks.
- Information lags.
- A drop in collection efforts.
- Significant deviations from budget and forecasts.

Voluminous paperwork.

Although recognizing the symptoms, a client may not know what is causing the problem, how to analyze it, or have the time or expertise to rectify it. In such situations, the client will be eager to call upon outside expertise.

I suggest using the scientific method of problem solving to improve productivity. This, simply, is a systematic approach to improving existing methods, procedures, and systems, and basically consists of defining the problem, researching the "given," developing and evaluating alternatives, implementing the solution, and following up. These processes will be described in part 2 of this article.

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IMPROVING WHITE-COLLAR PRODUCTIVITY: A NEEDED SERVICE (PART 2)  AUGUST 1986

In Part One of this article I suggested using the scientific method of problem solving to improve productivity. This, simply, is a systematic approach to improving existing methods, procedures, and systems and basically consists of the following six steps: defining the problem, researching the "given," developing alternatives, evaluating alternatives, implementing the solution, and following up. This half of the article will describe more fully how to go about each of the steps.

Define the problem
The auditor should determine whether a client has truly identified a problem or is merely reacting to symptoms that are camouflaging it. A common pitfall is to underestimate the difficulties of this first step. Unless carefully analyzed, the problem can easily be misdiagnosed.

For example, a client, concerned that customer payments were slowing, hired another collection clerk. Yet outstanding balances continued to age. Asked to evaluate the procedures followed by the collection clerks, my first step was to look closely at the overall operation. This revealed that the procedures for handling returns, not the collection process, was the root of the problem. Evidently, orders were being returned without supporting documents, and, as a result, credit memoranda were not being issued, and customers were holding payment on the entire invoice. Little would have been gained by auditing the collection process, as requested, because the client was addressing a symptom of the problem, not the cause.

To help identify the problem, traditional charting techniques can be used. Proper use of these charts also enables the analyst to synthesize solutions. To analyze a product, for example, the analyst might use one of the following graphic techniques:

- Process-product chart.
- Flow diagram.
- Procedure analysis chart.

For an analysis that focuses on people rather than the product—"man analysis"—there are other techniques available, such as

- Process-man charts.
- Man-flow diagrams.
- Workplace layouts.
- Operation charts.
- Multiple-activity charts.

To illustrate the difference between product analysis and man analysis, consider process charts. Both product and man analysis are graphic presentations of separable steps. For a product, the analyst graphs the steps involved in performing the work required to modify a product from one stage of completion to another. A process-man chart, however, treats the person as a single unit and illustrates the steps people perform when doing tasks that require them to move from place to place in the course of their work.

Research the "given"
When auditors research the given information, they should be careful to distinguish whether the type of information gathered is that which is prescribed by fact and/or constraints, or that which is assumed.

Some of the best opportunities result from being willing to challenge information that is assumed to be true.

Develop alternatives
The concept of productivity improvement stems from the premise that every operation can be made
more efficient or effective. This step is probably the most difficult in that it requires the auditor to be creative. Most helpful in this respect, I find, are work simplification techniques.

I believe a typical internal control questionnaire or checklist might limit the auditor to items on it, and thereby stifle creativity. Nevertheless, there are questions that should be addressed for each task, such as who, what, when, where, why, and how. For examples of the ways these questions can be applied, see the sidebar on this page.

It should also be determined if the task is necessary; and if it is, whether there is a better or cheaper way of performing it. The flowchart on page 6 illustrates the process of combining and eliminating tasks in order to simplify an operation and make it more efficient and effective.

Evaluate the alternatives
Once possible alternative methods have been developed, these must be evaluated in order to select the best one. It is important to keep both the objectives as well as the problems of the present system in mind during the elimination process, and to consider the advantages and disadvantages of each alternative. Only then can you make an objective selection.

Final recommendations should be clearly documented. I recommend devoting ample time to preparing the final report. After all, it is your "product" and reflects you, your firm, and your work. The report should be easy to read and tailored for each client. Although an oral presentation is also necessary, it is inadequate by itself because (a) clients may misinterpret the recommendations and (b) they need something they can review and digest and from which they can develop action plans.

Implement the solution
Together with the client, determine which recommendations should be implemented first, and which employees will be responsible for each one. I believe it is better to select on the basis of quick implementation rather than on importance. This will get things rolling and do wonders for your credibility. Also, implementing several small changes in procedures will boost employees' morale and create a progressive atmosphere.

Establish a timetable for completion with the employees concerned. Their input can avoid the possible setting of unrealistic goals which would only frustrate staff. Hold weekly meetings to review progress.

Upon completion, credit should be directed to the employees rather than to the consultants. Also, it is helpful if the impact of the changes can be measured and communicated. People like to see results that can be quantified because this promotes a positive image of them and the company with which they
Common Operational Audit Findings

Don't be deceived by client personnel who insist that everything they do is not only necessary, but cannot be altered in any way. I am always amazed at the number of unnecessary tasks that can simply be eliminated. The following are common circumstances revealed by an operational audit.

Several people maintain the same records.
It might be for different reasons, they might be in different departments, and they are often unaware of the duplication but, in any case, the record keeping can usually be streamlined. If several people need access to identical information, it should be compiled once and made available to others.

Manual checks and balances are needlessly maintained after a process is computerized.
This verification is prudent for a while after automation, but should be discontinued after a successful test period. This practice is not usually per management's instruction; rather, it occurs because a conscientious employee lacks confidence in the computer.

Long after an application is automated, manual records are often still being maintained.
Management should not assume that old systems vanish when new systems are installed. This requirement must be communicated to employees.

Manual records are maintained by employees who do not know that the information can be retrieved from the computer.
This duplication of effort is merely a training problem. Staff members are unaware that they can access information in an on-line inquiry mode. Or, they maintain a manual log by, say, vendor number because the report they receive is alphabetical and they are unaware that the system can also sort by vendor number.

In short, if a task is not necessary, simply eliminate it. If, however, the task is necessary, move on to the next step: Can it be improved? Generally, improvements result by performing a task (or, producing a product/service) easier, faster, better and/or cheaper with equal or better value. Activities can often be simplified, modified, or combined in some way. (See the flowchart on page 6.)

If elements cannot be combined, scrutinize the sequence of events. Sometimes improvements can be realized by changing the order of the tasks. Also, take a look at the layout of the workplace. Does it facilitate work flow or hinder production? An awkward layout invites many inefficiencies. Search for repetitive tasks that should be mechanized. Keep in mind that the possibility for the human element of error should be avoided wherever practicable.

Follow-up
The final step in the scientific method of problem solving is follow-up. Unless the new system is monitored with documented results, there will be no way to measure or judge its effectiveness. Follow-up also provides an opportunity for the consultant to review any problems that may have arisen.

In summary, productivity is determined by the pace of the worker, which is clearly limited by the human element, and by the methods, procedures, and systems used, which are, at the least, subject to fewer limitations.

Therefore, it obviously makes good business sense to direct efforts toward improvements in methods, procedures, and systems. The approaches suggested in this article can be used to accomplish such improvements, particularly for clients' white-collar tasks.

As companies grow and technology changes, the methods and procedures used in performing tasks—even the way firms are organized—are likely to change. This can cause inefficiencies, bottlenecks
The practicing CPA on Developing and Marketing Services

“Is This Task Necessary?”

BEGIN

TASK NECESSARY?

CAN IT BE IMPROVED?

MODIFY/COMBINE ELEMENTS?

DEVISE MODIFICATION

DEVISE OTHER SEQUENCE

DEVISE OTHER LAYOUT

MECHANIZE REPETITIONS?

DEVISE MECHANIZATION

ELIMINATE IT

MAINTAIN STATUS QUO

IMPROVE WORKPLACE LAYOUT?

EVALUATE THE ALTERNATIVES

END

and even impair management’s control over operations. Many clients, therefore, can profit from an operational audit of their office operations to help them reduce costs, tighten management control, and improve productivity, competitiveness and the quality of their customer services.

In the period from 1977 to 1982, the U.S. work force payroll shrank by 600,000 blue-collar jobs but added 8,300,000 white-collar ones. This trend is continuing, but little is being done to improve white-collar productivity. It is estimated that during this same period, blue-collar productivity increased 10 percent, whereas white-collar productivity declined 9 percent. Our clients need our help. ☑

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HELPING CLIENTS SURVIVE AN ECONOMIC DOWNTURN

One of the pleasures of owning a business is seeing it grow and prosper. When economic conditions become difficult, however, one of the burdens of ownership is trying to keep the business alive. There is a fine line between success and failure in business.

There are many warning signs of a failing business. Usually orders slow and margins fall. Cash dries up, loans become difficult or impossible to obtain, and receivables become troublesome to collect. At this point, clients often look to their CPAs for advice.

One of the problems is that many clients don't know how to interpret financial statements. We do, and should take the opportunity to explain possible actions which could improve their situations. Although every business is unique, several ideas that are frequently helpful are listed below. Most of them revolve around being able to identify problems quickly and reacting before they damage a client's company.

What to tell your clients

□ Watch operating margins. If profits are down, check whether you are at least covering the operating costs. Any revenue that is greater than operating costs helps cover fixed costs.

□ Cut costs. See if there are some identifiable expenses, such as health insurance premiums, that are getting out of hand. Can anything be done to reduce these costs, such as increasing the deductible or adding a co-pay feature?

□ Communicate with employees. If employees understand the problems, they are more likely to be supportive and might even be able to suggest solutions. If you communicate with employees, they can be your most important asset.

□ Communicate with customers. Customers need to know that you value their business. Taking them out to lunch or dinner, or perhaps to a sports event lets them know they are important to you. And for established and new customers alike, nothing beats your visiting their premises.

□ Buy smarter. Don't overstock inventory. Buying large quantities should result in substantial savings before you tie up cash in inventory.

□ Cut overhead. It is painful to terminate employment, but if individuals are not adding to the bottom line, it may have to be done.

□ Build up a cash hoard. Don't overextend yourself by obtaining new loans. Consider consolidating old loans at more favorable rates and terms.

□ Don't plan major capital expenditures. Wait for signs that the economy is pulling out of a recession before committing to major expenditures.

□ Talk to your bankers. Let them know your financial position and how you are handling any problems. They will be much more likely to work with you if they understand the facts and your plan of action.

□ Have a positive attitude. There will always be periods of economic contraction and you must be able to adapt to them. Every year cannot be better than the last. Make necessary changes and remember that a positive attitude will help you retain employees, customers, and your own peace of mind.

How you can help

CPAs can often help clients in difficulty because of our problem-solving capabilities and knowledge of their business potential. You can, for example,

□ Analyze the client's results to spot trends and problems. You might compare sales and income with past performance and consider graphing the results to show relationships. Look for the reasons for any changes. Be cognizant of overhead and fixed costs and their impact on income if sales decline. When analyzing the balance sheet, be particularly aware of current assets and liabilities. Check whether accounts receivable, inventories, and debt levels are climbing.

□ Compare the client's performance with others' in the same industry to spot discrepancies. Check whether expense ratios are out of line with industry averages, and see how other companies in the industry are coping with the downturn.

□ Forecast future results based on various corrective actions. Work with the client to develop a strategy to deal with economic realities.

□ Keep the client's banker informed of the client's results and progress. Develop a relationship of trust with the banker and make yourself available to answer questions about the financial statements.

□ Keep your objectivity. Oftentimes, the best advice may not be what the client wants to hear.
but needs to hear. In a family-owned business, for example, the best advice may be to eliminate some of the positions held by family members.

Summary
Because of our knowledge of their businesses, we CPAs can offer real value to our clients by identifying warning signs and problems early, and by recommending corrective courses of action. Economic downturns present opportunities for us to increase the prestige of our practices while helping clients in need.

—by Kurt Jacobsen, CPA, Umble, Gayhart & Jacobsen, 7419 Kingsgate Way, P.O. Box 849, West Chester, Ohio 45069
CASH FLOW HELP FOR CLIENTS

Uneven cash flow is the number-one financial obstacle facing small businesses, according to a survey conducted earlier this year by the private companies practice section (PCPS) of the Institute’s division for CPA firms. Over one third of the 350 companies surveyed are confronting a cash squeeze. Taxes and labor costs are their next most pressing problems. Forty-six percent of those surveyed believe the financial climate for small businesses in the United States has deteriorated in the past three years.

Nationwide, twenty-eight percent of the companies surveyed planned to borrow more money this year than in 1989, mostly for expansion, new products, and better equipment. The figure is higher among manufacturers, companies in the East, and among those with annual sales of $15 million to $25 million. Median annual sales of the respondents was $5 million.

Among other survey findings: Fifty-seven percent of the small business executives polled noted that their bankers were “very willing and able to support the company’s business goals.” Twenty-eight percent said their bankers were “moderately willing and able.”

Robert L. Israeloff, chairman of the PCPS executive committee, and partner in Israeloff, Trattner & Company, a Valley Stream, New York, CPA firm, notes that cash flow ranked higher in the survey than any other financial concern, and that this ranking is consistent across regions, industries, and company size. He says that undercapitalization continues to be a problem with local businesses.

For a number of years, Israeloff, Trattner & Company has published articles on cash management in its client newsletter, Ideas & Trends. In one issue two years ago, for example, the firm outlined the following ten strategies to help business clients improve their cash flow.

How to increase cash inflow

☐ Reduce the time between shipping merchandise and invoicing the customer. Consider expediting the billing of big-dollar invoices. If a large shipment is being readied, arrange to bill it on the shipping date.

☐ Set up accounts receivable processing so that the monthly statement is sent to the customer several days before the end of the month. This should hasten payment.

☐ Take the necessary steps to settle customer disputes promptly, particularly with customers who withhold payment because of a problem with the order. Call nonpaying customers before mailing a delinquency letter. This demonstrates attention to customers’ concerns.

☐ Require delinquent customers to pay cash in advance or upon delivery for future orders. Customers will often settle past accounts to avoid these requirements.

☐ Concentrate collection efforts on the largest accounts because in-house costs (telephone calls, letters, and so on) are about the same for all outstanding balances—no matter the size.

Israeloff, Trattner & Company advises clients that collection agency fees are generally a percentage (possibly one third to one half) of the amount recovered. Using a collection agency is always a sensitive issue, and the firm suggests clients might want to continue handling their largest accounts themselves.

How to decrease cash outflow

☐ Arrange to pay large bills at the latest date possible (assuming no discount for early payment). For example, if payment of a $25,000 bill is delayed for a month and the money invested at 8½ percent interest, it can earn $167. The amounts earned can become significant if this is done regularly.

☐ Compare the savings from taking a discount with what can be earned from delaying payment. A significant difference in the amounts should influence the decision on when to make payment.

☐ Avoid buying excess inventory. It not only ties up cash, but the carrying expenses, such as warehouse space and insurance, can easily add up to 20 percent of the value of the goods. The tax requirement to “capitalize” certain inventory costs increases the expense still further.

☐ Try to negotiate price discounts for high-volume purchases.

☐ Defer payment of income taxes where possible.

In other articles, Israeloff, Trattner & Company advises clients to monitor accounts receivable, pointing out that the longer they wait, the less likely they are to collect. Such losses can be difficult to make up. With an operating profit margin of 10 percent, for example, a client would need additional sales of $100,000 to make up a $10,000 accounts receivable loss.
The CPA firm tells clients that during uncertain economic times, credit customers tend to pay larger accounts first, even though it is the smaller businesses that can least afford the cash vacuum caused by slow paying customers. Also, when interest rates are high, many companies that previously had no problems with collecting bills begin to see an increase in accounts receivable.

As a general rule, the ideal receivable turnover period is the shortest one consistent with satisfactory sales and satisfied customers. This usually means that clients must tread a fine line between high-pressure collection tactics that alienate customers and lenient procedures that jeopardize cash flow.

Israeloff, Trattner & Company tells clients that good management, close monitoring, and consistent follow-up are the best prevention against accounts receivable loss. It points out that while persistence and consistency may be the keys to collection, systematic procedures for up-to-the-minute monitoring of accounts receivable can help them spot potential collection problems early on. Knowing where they stand on receivables can allow clients to set policy accordingly. In this regard, the CPA firm suggests three methods clients can use to obtain an up-to-date assessment of their accounts receivable.

**Compare with past experiences**
Comparison of the latest month’s figures with those of prior months can tell clients when they need to monitor collection efforts more closely. The first step should be to determine the percent of each month’s collections relative to the total amount of receivables outstanding. If cash collected during the month was $84,500, for example, and receivables on the first of the month were $100,000, the effectiveness rate is 84.5 percent. This percentage should then be compared with the average for prior months. If the current effectiveness rate is below the average, it is time to analyze why.

**Compare with daily sales**
Another important calculation is days’ sales outstanding (DSO). This is obtained by dividing average daily credit sales into the total amount of accounts receivable. For example, if the average day’s sales are $2,000 and receivables are $120,000, the DSO is 60 days. If the terms of sales are net 60 days, the client appears to be in fine shape. If the terms are net 30 days, however, the client has a problem that should be looked into.

**Compare with annual credit sales**
It is also important for clients to check the relationship of their annual credit sales with average monthly receivables. If credit sales are $110,000 and monthly receivables are $10,000, the current turnover is 6.5 times a year. This is excellent for most businesses. Comparisons should be made with standards for the client’s industry, however, and with the company’s historical benchmarks for a more accurate assessment of the client’s performance. The computation can be made on a monthly or quarterly basis.

In one issue of Ideas & Trends, Mr. Israeloff reminds clients that their accounts receivable reflect all the efforts they have put into building the sales of their businesses. He urges clients to monitor their accounts receivable levels and turnover by using the three methods described. “Don’t let your money remain in someone else’s pocket,” he says.
Many small businesses have an independent CPA do their monthly accounting. This write-up work is important to the small business, for it not only provides skilled accounting at modest fees but also assures owners that the accounts are correct and the assets accounted for.

There are six additional steps a CPA can take that can be valuable to a small business client. These steps are in the nature of internal audits. Although this might be a new area to many, a CPA's training should enable effectively performing the six reviews and reporting the findings and recommendations to the client. Let's look at some examples illustrating the application of these reviews.

Is anyone's hand in the till?
A cafeteria manager was convinced he wasn't grossing what he should, considering the volume of customers going through the line. He had a quick and capable cashier who was responsible for collecting payment from the customers, but any irregularities in that area were not immediately apparent. Finally, hidden observation revealed how the leak was happening.

The cashier would tally the correct bill, ring up the amount minus one dollar, but charge the customer the full amount. The cashier would then move one penny to a separate place in the register. All the cashier then had to do at the end of the shift was count the pennies in that location and extract the corresponding number of dollars from the till. Believe me, the hand is quicker than the eye!

A business must do more than assume it has honest employees. It must establish procedures that act as a deterrent to employees being tempted to steal. In the above instance, theft was detected because the cafeteria manager had a good instinct for what the gross should be.

This is only one example. The stories of small business failures resulting from employee thefts of money, merchandise, and time are so numerous that according to one estimate, they account for about one-third of all U.S. business failures!

In counseling clients about needed procedures, CPAs should remember that clients often know nothing about the nature of internal controls and they may have to explain why procedures and checks and balances are established in certain ways and why they must not be altered or overridden.

Are employees doing what they should?
A certain company had a personnel procedure requiring department heads to review each employee's performance annually. An audit of selected departments revealed that the procedure was being followed and the forms completed and filed, but the performance reviews were simply never communicated back to the employees. Obviously, employees could not improve because they never knew the results of their annual reviews.

I know that some small business people think that written procedures are just so much red tape and have no value. Nevertheless, the CPA should write some simple procedures and demonstrate their value to the client in providing consistency in accounting, administrative, and financial control functions, and in simplifying the training of new employees.

Is there a logical explanation for the net profit or net loss?
Concentrating on the bottom-line results of a business can be misleading because it presupposes that the business has a good accounting system that will reveal errors or irregularities between the bottom line and gross income. Following are just a few items that can affect bottom-line results:

- Capital expenditure miscoded as expense.
- Failure to accrue expenses in the proper accounting period.
- Errors calculating inventories.
- Entry of income in the wrong accounting period.
- Production costs incorrectly calculated.
- Improper calculation of overhead.
- Failure to operate the cost accounting system properly.

Simply telling the client there is a loss for the accounting period is not enough; he or she already knows that. The CPA has an opportunity to find out why there is a net loss.

Are there written quality control procedures?
Every manager or owner of a small business realizes the importance of quality control. As noted above, however, rarely are there any written procedures. We asked one owner—manager of a technologically sophisticated small business for a copy of his quality control procedures and he pointed to his head, indicating their location. Of course, if he became
incapacitated, nobody in the company could check for quality. Our recommendation, therefore, was that written procedures should be prepared.

Unless strict quality control is practiced in a company, inferior goods will be produced, only to result in lost customers, rework costs, and declining sales.

Are there any indicators that need to be investigated?
During periodic examination of a client’s records, a CPA may observe something that attracts his or her attention. Some indicators observed in the procurement and purchasing functions, for example, are favoritism, lack of competitive bidding, failure to buy optimum quantities, restrictive specifications, excessive returns, and unmet schedules. The CPA has an opportunity to provide a valuable service to the client by establishing the reasons and making appropriate recommendations. Not all indicators require investigation, and the CPA will rely on experience to determine if the indicator is factual.

What about changes in orders?
I know from experience that not many small businesses use cost accounting systems that will keep track of the costs of making changes required by customers. Usually, the costs of the changes are simply merged with the costs of the project.

A construction firm, for example, failed to have such a system and the result was much time wasted arguing with customers. If change order cost accounting had been in effect and customers had been notified in advance that costs of changes would be collected, much stressful arguing would have been eliminated.

Conclusion
Many small businesses need an objective look at other matters besides purely financial ones, even though they often cannot afford the services of a full-time internal auditor. CPAs can fill this need if they are properly trained and can adopt a management viewpoint instead of an accountant’s.

Management is not looking to get the job done perfectly, but adequately and at reasonable cost. The CPA, on the other hand, may tend to be a perfectionist and prepare elaborate procedures and recommendations to cover every possible situation. This is not what the small business needs or wants, and a CPA who insists on perfection will quickly alienate the client. This is not to imply that CPAs should abandon high standards, but they should realize compromises may be needed in reaching agreement on solutions to problems.

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SYSTEMS DEVELOPMENT AND THE ACCOUNTANT

There has been considerable criticism over the years regarding the relevance of the information provided to users by many organizations' cost accounting systems. I believe this situation can be improved through a systems study in which the CPA plays a major role. Let's look at such an approach from the viewpoint of developing a cost accounting information system that will help the management of a manufacturing firm more effectively perform its planning, control, and decision-making functions. The study has four steps.

Systems analysis
Through being involved in the first stage, the analysis of the system, the CPA will acquire a thorough understanding of the client firm's organizational structure, the manufacturing procedures and processes employed, and the type of cost information managers need in order to carry out their duties.

With respect to the organizational structure, it should be stressed that client management is responsible for establishing the firm's objectives and goals and for measuring the performance of the manufacturing activities. A well-designed cost accounting information system can contribute significantly to the measurement of manufacturing performance and to achieving goals, depending on how production personnel use it. In addition, the manufacturing accounts in the cost accounting system should correspond with the organizational division of authority so that individual managers can be held accountable for the costs incurred in their departments.

Because manufacturing procedures and processes differ from company to company, each cost accounting system must be specifically designed to reflect its own production method if the system is to provide relevant managerial information. The CPA must, therefore, understand these production processes as well as other pertinent information such as the employee pay plan and the inventory control procedures that are being used.

The CPA must also become familiar with the various functions individual managers perform so that meaningful cost reports can be designed and provided to them on a timely basis. While the detailed informational needs of managers will obviously vary, all manufacturing firms require cost accounting information systems that facilitate:

- Planning and controlling inventories and computing the cost of sales.
- Measuring the efficiency of production employees.
- Establishing selling prices.
- Determining optimal inventory levels.

Systems design
Systems design, the next step, follows directly from the work performed in systems analysis. Based on the client firm's needs, the CPA should help the client decide whether it would be best to use a manual or computerized system to process the cost accounting data and prepare reports, whether a job-order cost system or a process cost system (or a combination of both systems) should be designed for accumulating and reporting on production costs, and whether a just-in-time (JIT) system should be designed to replace the company's present method of maintaining inventories.

The economic feasibility of each proposed system should then be studied. The estimated costs and benefits of each must be weighed to determine which, if any, of the proposed accounting systems would provide relevant information to the managers in a cost-effective manner.

Systems implementation
Let's say, for example, that as a result of the systems design work, the CPA has recommended a computerized process cost system for a manufacturing firm. The CPA can provide another valuable service by helping the client in its implementation.

Systems implementation is often referred to as the "action" phase of a systems study because the recommendations from the analysis and design work already performed are now put into operation. Effective implementation requires planning.

Implementing a new system normally involves several activities that must be performed in a logical sequence if the project is not to be unreasonably delayed. As these activities progress, the CPA can prepare control reports that alert management to any problems that could hold up completion of the new system. Additional resources can be allocated to any activity that is behind schedule.

Systems follow-up
After a newly installed accounting system has been in operation for a specified period (three months, for example), the CPA should participate in the evaluation of the system in order to determine whether it is functioning in an efficient and effective manner and is meeting the client's information needs. Using
again the illustration of the computerized cost accounting system, let us assume the system has been in operation three months. By now, it should be providing managers with useful information about manufacturing activities. It is possible, however, that problems in the new system may prevent it from operating properly. To measure its effectiveness, the CPA should

- Find out whether production managers are satisfied with the content of the reports.
- Observe selected employees to determine whether they are executing their assigned jobs correctly under the new requirements.
- Evaluate the functions associated with accumulation and processing of cost accounting data to ensure proper performance.
- Determine whether managers are receiving production reports according to schedule.

If the CPA is satisfied that the system is operating effectively, obviously no revisions will be necessary and the new system will continue to process the firm’s transactions. On the other hand, if the system is not performing to expectations, the CPA will need to pinpoint the causes of the problems, recommend design changes, and then help the client implement the modifications.

A cost accounting system might currently meet the needs of users for information, but this may not always be the case. By conducting periodic evaluations, the CPA should be able to detect any shortcomings that develop and be in a position to recommend needed modifications.

Concluding thoughts
Client personnel are often so involved with their own tasks that they are not aware of the needs of other users of their company’s cost accounting information system. This can result in considerable inefficiencies. By conducting a systems study, you can ensure that relevant information is provided to all users of the system. Both CPA and client will benefit from that.

—by Stephen A. Moscove, Ph.D., CPA, Department of Accounting, School of Business, Central Connecticut State University, New Britain, Connecticut 06050
HELPING CLIENTS SOLVE TURNAROUND PROBLEMS

Some day, a client is going to come to you in need of some particularly rapid improvement in results. When you get the call or the visit, you will find the client has five basic problems. I call these the “M” word problems. Your firm can help clients with every one of them. Let me show you how.

Management

The first problem you will discover is management itself. And it is likely that the person who contacted you have been part of the problem. That won’t be a continuing problem, however, if management is willing to change and become part of the solution. But if deep down, client’s management wants to continue doing what it has been doing (if management won’t change and won’t make changes), then at best, it will keep on getting the same results. That’s at best. You will need to recognize the significance of an immovable obstacle, such as described, at the outset.

Being the chief executive officer (CEO) of a company in a turnaround situation can be a lonely position. Often, there is no one with whom to talk or think things through, or no one in whom to confide. The CEO can do a lot of second-guessing, particularly if information is not timely or is unreliable.

Assuming receptivity, you can fill an important role by becoming a mentor or an objective advisor to the CEO and client’s top management team, so that individual managers won’t fool themselves. Sometimes, managers are too close to the business to see things objectively. You can help create and provide objective information. You can review and evaluate the information and make recommendations. One further way you can help client management in turnaround situations is through the establishment of a board of directors or advisors that will influence the company.

Money

You will find that the second problem is money, namely, cash. Cash will be going out faster than it is coming in, there will not be enough cash in reserves, and vendors and creditors will be anxious to get cash due them. Banks and other creditors, generally, will not be patient. The emotional drain on management trying to deal with cash problems can be debilitating.

In any turnaround situation, it is most important to quickly obtain an accurate summation of the current cash and near cash positions, the historical cash flows, and the estimated future flows of cash. If there is one thing business people can do, it is deal with the facts once they are known. But the problem in many turnaround situations is that management doesn’t have the facts, and then, of course, third parties don’t either. It all unravels from there.

So a great service your firm can provide is to quickly obtain accurate information regarding cash. Then you can meet with client personnel to interpret the data, so that intelligent decisions can be reached and plans can be made.

The next important step in a turnaround situation is to decrease the cash outflow and increase its inflow. This sounds basic, but I have seen many situations where management was simply too overwhelmed to be able to sift through the details and develop an intelligent plan to focus on these issues. Here, too, your firm can help by identifying where actions can be taken to improve cash flows.

Another concern regarding money is to find enough of it to finance the turnaround. This might be realized in the form of creative restructuring of debts or vendor obligations, a cash infusion from the sale of assets, or from a debt or equity injection. In such situations, your firm can help by quantifying the need, identifying possible ideas and sources for solutions, and by preparing the information necessary to solicit and obtain funds.

Market

It is important to keep in mind that in nearly every turnaround situation, management has, at least to some degree, lost touch with the realities of the marketplace and the existing and prospective customer base of the company.

The most common occurrence is that the market changed and the company didn’t. Often, the company became complacent and began taking its customers for granted, while other firms moved into competitive positions. Regardless of its cause, there is usually a difference between what the company is selling and what the market wants and/or between the way the company is selling its products and the way customers want to buy them.

Your firm can provide a tremendous service by simply going into the market and obtaining objective information. You can interview customers, visit the company’s locations, and visit the competition. You can go on a fact-finding mission to identify where marketing gaps exist so these may be bridged.
and filled in.

It is surprising how many significant management decisions are made based upon anecdotal information when facts and solid evidence were easily obtainable, or may be already available. A revealing exercise is to call past good customers who have not purchased lately, or who are purchasing less, and ask them why. There is no reason your firm cannot help develop programs to make such inquiries.

**Motion and momentum**

Motion and momentum are two important elements of every turnaround situation. Many times, it is far better to just get things moving and then adjust, than to do nothing at all. And the way to maintain momentum, once things are moving, is this: *Always know what to do next.*

Again, your firm can provide many services regarding project management. There will be many things to do to get the turnaround situation underway and much to coordinate if momentum is to be maintained. Your firm can help develop a plan that management can use to guide progress and track results.

When you are lost in the dark, there is nothing more reassuring than seeing a light in the distance. The services your firm can provide and the plans you can help develop can become that light to a client in a turnaround situation, particularly to a client in need of some rapid improvement in results. 

—by Jim Ball, CPA, Jim Ball & Company, 1889 Preston White Drive, Suite 115, Reston, Virginia 22091, tel. (703) 620-1900, FAX (703) 620-1103
SECTION 2—INDUSTRY NICHE

Government

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GOVERNMENT WORK—FERTILE TERRITORY FOR PRACTICE DEVELOPMENT

AUGUST 1983

One often overlooked source of additional work for small CPA firms is in the area of government contracts. These contracts may be with such diverse groups as federal agencies, state, county or local governments or with nonprofit and quasi-governmental organizations such as school districts, planning districts and other recipients of grant or contract funds.

Most government auditing and consulting work is awarded on a bid basis. This means that the usual methods of practice development such as referrals from bankers, attorneys and present clients are not applicable in obtaining this type of work. Instead, one has to know how to find out about the contracts and how to bid on them.

The first step in doing this is to determine areas where you have particular experience or an established client base. For example, if some of your clients are nonprofit organizations that receive state education funds, then the state department of education may be a logical source of additional business.

Once you have decided which agency to target, make an appointment with the grant officer or fiscal manager to discuss the types of programs administered by the agency and the possibilities for audit or consulting work. Be sure to have your firm’s name placed on the mailing list for any requests for proposals or invitations for bids.

After the initial contact has been established, maintain communication through periodic follow-up. Although contracts are usually awarded on a competitive basis, it does not hurt for the evaluator to recognize the firm’s name. Keep in mind that if you have not learned about a request for proposal or invitation for bid before it hits the streets, you have not been laying the proper groundwork with the agency with which you wish to do business.

When you receive a request for proposal, read the instructions carefully. Determine what the agency is requesting and whether or not this is within your area of expertise. Check when the services are to be provided. You need enough time to prepare an adequate proposal and must also be able to fit the work into your staff schedule. You should also make sure that the proposal does not contain any provisions concerning the payment of fees or progress billings that are unacceptable to your firm.

Governmental agencies use several types of bidding procedures. These include

- An invitation for bid (IFB). This requires submission of a sealed bid which is opened publicly at a specified time and date. The contract must be awarded to the lowest bidder. Technical qualifications and expertise are not considered.
- A request for proposal (RFP). This is used when an agency cannot provide exact specifications. The RFP requires the bidder to describe how a project will be carried out and what the costs will be. Generally, the proposal is evaluated on both the technical and price aspects.
- Negotiation with only one source. If the goods or services to be provided are proprietary or cost below certain dollar limits, contracts may be awarded on a sole-source basis.

Once the decision has been made to respond to the IFB or RFP, answer every question and supply all information sought. It is best to complete the sections in the sequence presented because this is usually the order of the evaluation points. Don’t try to sell the agency what you think they need; just respond to the stated request for specific services. If it is determined that the original scope was not appropriate after the award of the contract, it may be possible to negotiate a change in the scope of the work.

There are several sources of information on government procurements. All federal agencies throughout the U.S., not just in Washington, D.C., are required to list needed goods and services in the Commerce Business Daily.* Non-national firms need not fear the competition of the larger firms simply because the procurement is being made by the federal government. Many of the audit and consulting contracts are “small business set aside.” This means that the competition is restricted to firms with average annual billings of under $2 million annually for the preceding three years.

Each state, county and city generally selects a local newspaper where notices of solicitation for bids are printed in the classified section. In addition, most of these entities will also have lists on which you can have your firm’s name placed for automatic mailings. Some states also provide a subscription service of the listing of procurements. If there is any fee at all, it will be nominal.

Governmental agencies can be very good clients, both in terms of the size of the contracts and the repetitive nature of the procurements. They do require that you rebid on the contracts annually or biannually, but as your experience grows, the odds
of your being awarded the contract increase.

These agencies should obviously receive the same
degree of service and responsiveness that all clients
receive. Contract fees have been increasing in the
last few years and, therefore, government clients
should not be looked upon as summer or filler work
but as an excellent source of new and continuing
business for your firm.

—by Linda K. Cheatham, CPA
Madison, Wisconsin

*Commerce Business Daily, Superintendent of Documents, Gov-
ernment Printing Office, Washington, D.C. 20402. Phone: (202)
783-3238, $175/year (first class), $100/year (second class).
JOINT VENTURES—A PROFITABLE RELATIONSHIP

Our firm, Goodman & Co., had lost government bid work before—to larger firms that can frequently bid lower, and sometimes to smaller local firms that have lower billing rates. This scenario was different, however. We were the low bidder and lost the engagement to a minority firm whose bid was considerably higher than ours. At about the same time, a client—a substantial minority contractor for the federal government—decided to switch its accounting work to a local minority CPA firm.

While discussing these incidents during a practice development session, one of our partners who was then serving on the AICPA's minority business development committee suggested we contact a few minority firms to determine their interest in entering into a joint venture with us for government-related work.

The minority firms initially selected were known to us because of contact through AICPA committee work and CPA Associates, Inc. (a national association of local and regional firms). The only criterion we used in making the initial contact was that the firms be located in our general practice area. Letters expressing our interest regarding the possibility of a joint venture were sent to three minority firms. Two of the three firms responded favorably.

Prior to meeting with representatives of the firms, we reviewed our goals in pursuing this type of engagement. We needed a clear picture of how our needs and the needs of the minority firms could be met in a mutually beneficial way. After discussion, we determined that our primary goals at Goodman & Co. were to secure additional off-season work within the public sector and to train staff in government work. Secondary goals were to compete successfully with the larger firms in securing additional and more substantial government engagements, to increase firm visibility in the public sector and to maintain morale among newer staff members, many of whom join the firm during summer months when the workload is lighter.

Because most minority firms have more work within the public sector than the private sector, there are certain advantages for them in an association with a local majority firm. By engaging in joint ventures as well as securing private sector engagements, they can reduce reliance on the public sector for business, develop expertise in specific private sector niches, train staff in a wider variety of engagements (with subsequent positive effects on morale and mobility) and expand their practice areas geographically.

Our next task was to develop a method for comparing firms. To assist, we asked the firms for the following information:

☐ What is the nature of government work you are doing or will be doing in the future?
☐ What are your objectives in such work?
☐ Describe any joint-venture work you have performed in terms of types of engagements, specific functions, staffing and fee arrangements.
☐ What do you see as your firm's strengths regarding specialization?
☐ What is your procedure for evaluating requests for proposals and writing responses to them?
☐ What budgeting/planning steps do you go through prior to submitting a bid?
☐ Describe your staff's experience in government engagements.
☐ Would you be interested in a joint venture with our firm and why?
☐ What is your experience in working under the single-audit concept?
☐ What kinds of work would you be interested in performing, e.g., audits, cost accounting, computer studies, review of contracts?
☐ Are you eligible for 8(a) set-aside contracts?
☐ How much longer will you be eligible?
☐ Describe your quality control procedures.

Our meetings with the firms proceeded, as most meetings do, with brief introductions and exchanges of information on the firms' backgrounds and experiences with government-related work. Their questions to us were similar to our questions to them. The only surprise was that neither minority firm had previously been approached by majority local firms to pursue joint ventures. Both, however, regularly engaged in joint ventures with large, national firms and believed that local majority firms were missing opportunities in the public sector.

As we talked about our firms' areas of expertise, it became apparent that an association could be mutually beneficial. One minority firm, for example, had a good prospective client lead on a large automobile dealership. Because the firm lacked specific knowledge of that industry, we suggested that one of our partners who has responsibility for almost a dozen auto dealership clients should accompany the minority firm partner to the initial meeting with the prospective client. We also sent the firm our audit program for auto dealerships and agreed to provide them with the services of a senior staff person, expe-
rienced in that industry, to supervise the engagement should they get it.

After these discussions we were ready to make a decision. As is usually the case where preliminary research results in a narrow field of candidates, it became a matter of choosing a firm for joint venture on the basis of a philosophy/personality match. We were looking for people with whom we could effectively work.

The engagement proposal process

Having made that choice, both firms decided that the initial tactic would be to write a proposal for every engagement where we had a reasonable chance of getting an interview. The first two proposals were written for large city audits. The minority firm, Hill, Taylor & Co., supplied us with résumés of its staff and an excellent audit plan. Prior to this association, we had searched for words to capture the essence of our experience in large-city audits...which was minimal. So the direct experience of Hill, Taylor's staff in performing government work was a real advantage. Although our first efforts resulted in good proposals, they did not result in interviews, on one occasion, because of the fee, and on the other, because the engagement seemed to be targeted for the prior year's accountants.

Undaunted, we wrote a third proposal—not for city work, but for special work associated with auditing records of the state's tuition reimbursement funds for special children. We did not have anyone on staff at Goodman & Co. who understood the "language" of the proposal and, frankly, it would not have been written had we not entered into a joint venture. We sent the request for proposal, along with some résumés, to Hill, Taylor, who, fortunately, had performed a similar engagement and was able to write, bind and submit the proposal with only a few days of lead time.

Representatives of the firms, as joint venturers, were invited for an interview a few weeks later. Government audit partners from both firms met with school officials to negotiate the fee. Helped by Hill, Taylor's previous experience on a similar engagement, the interview proceeded smoothly and our firms were engaged as auditors shortly thereafter.

The engagement is for eighteen months and has generated over $25,000 in fees. Because Goodman & Co. has an office closer to the engagement location, we provided most of the staff and supervision.

In determining fee arrangements, it is important to use a method for computing profit which is simple. The formula should be reviewed by both partners in advance to avoid misunderstandings of items to be included in direct cost and the percentage for overhead costs. The fee arrangement that we worked out between our firms provided that each firm would be reimbursed for direct costs and associated overhead; revenues in excess of these allocations would be distributed equally.

By entering into a joint venture with a minority firm we have additional resources available to us. It has provided us with specialized expertise, and, as a result, our government proposals not only look more professional but are targeted to the needs addressed in the request for proposal. Through the joint venture, one of our branch offices has secured additional work, and those hours and billings have added considerably to bottom-line profits without putting undue pressure on staff. We expect to secure similar engagements in the future.

—by Bruce C. Holbrook, CPA
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MISSED OPPORTUNITY: PRACTICE MANAGEMENT SERVICES FOR HEALTH CARE CLIENTS

Many CPA firms have doctors and medical practices as clients. Generally, the types of services rendered to them are tax preparation, retirement plan administration, personal financial planning, and the preparation of compiled financial statements. While these services are necessary, they are not as vital to health care clients as what are known as practice management services. But although many health care clients would like to receive practice management services, not many CPAs provide them. The result is a missed opportunity. The two main reasons doctors desperately need these types of services are that they usually

☐ Are not business people by nature.

☐ Hire the wrong people to manage their offices and to bill and collect for their patient services. This often means lost revenue and poor cash flow for the medical practice. Let me give you an example of how valuable practice management services can be to health care clients.

On November 25, 1991, the Health Care Financing Administration released new regulations on how doctors treating Medicare patients will be paid and how they must bill their services in order to be paid. The regulations include new CPT (Current Procedure Terminology) codes, new CPT modifiers, a new definition for the global surgical package, a new Medicare fee schedule, and a myriad of other reimbursement rules.

Since these new regulations came into effect, we have assisted our medical clients with redesigning their practice superbill, conducted RBRVS (Resourced-Based Relative-Value System) payment analysis, and conducted staff training seminars on the new codes and Medicare reimbursement rules. We have also implemented revenue enhancement strategies and assisted with the development of marketing plans that are now necessary to shift the payor mix of certain high Medicare practices.

As you can see, these services have nothing to do with accounting or tax. They are the types of services that can help a medical practice increase revenue and cash flow. Developing practice management expertise within your accounting firm is not easy. It requires a commitment to specialize, both in terms of firm-wide philosophy and in the time it will take the individuals involved to learn the skills. You will also need sufficient working capital to build up the specialty. In short, it will not happen overnight.

Nevertheless, if you can develop an expertise in medical practice management, your firm’s value to your health care clients will increase dramatically. As an attorney working for a joint medical practice client once told me, “My fees are looked at as overhead, yours are not.” So not only will your value to medical clients increase, but your firm’s billable time and revenues will increase as well.

☐

Some valuable practice management services for health care clients

- Complete practice evaluation
- CPT coding review
- New practice set-up
- Review of hospital contracts
- Medical practice valuation
- Physician buy-in/buy-out
- Reimbursement analysis
- Income distribution arrangements
- Assist new doctor hiring
- Fee schedule review
- Diagnosis coding review
- Review of managed care contracts
- Superbill review and design
- Practice consolidations
- Medicare compliance review
- Practice transition planning
- Receivables review/clean-up
- Embezzlement control analysis

—by Reed Tinsley, CPA, Haynes O'Neal, 3200 Southwest Freeway, Suite 2310, Houston, Texas 77027, tel. (713) 993-0847
DEVELOPING A NICHE IN LAW FIRM MANAGEMENT

What does it take to be a champion of law firm management consulting? It certainly does not require a large CPA firm’s resources. In fact, it is an ideal niche for a small firm. What I find it requires, more than anything else, is an ability to put together a team to provide the service, an awareness of law firm idiosyncrasies, and a tenacious desire to be a champion.

When you work with a law firm, your involvement should be primarily at the partner level. If you do too much work at other levels, such as with the firm administrator, controller, or accounting manager, you will lose the stature you have as a partner. Have your staff work with the middle tier of the law firm. Make sure you stay at the partner level in order to maintain your seat at the “partner table.”

I have also found it essential to teach younger staff members how to be part of a team and how to think about business the way I think about it. I do this by taking them to client meetings or by going over my meeting notes with them and talking about what was discussed.

You need to understand how a law firm is run and know about some of the similarities and differences between law firms and CPA firms. Understanding the differences is particularly important if you are not to become caught up in thinking that lawyers have to do everything “our way.”

Law firms are quite uniformly structured. There are partners, associates, legal assistants, and support staff. In our environment, legal assistants would be considered support staff, so really a law firm is about equally divided between professional and administrative staff. The leverage is greater in CPA firms, where we typically have a small administrative staff and delegate more of the work from the partner level down.

Lawyers tend to work on teams by client matter. When a client situation arises, it is treated as a separate engagement, and a team is assembled to service that issue. This compares with our effort to put teams together to provide everything a client needs, all the time.

The culture of a law firm is usually formal and protocol is important. You need to make appointments and wait until asked to enter someone’s office. You also need to look as if you are part of the firm. This means conforming to the dress code of the law firm.

Good communication skills are essential. Lawyers are wordsmiths and orators, and it is imperative to meet the challenge. And don’t be wishy-washy. If you can’t give your opinion succinctly, it could be a problem.

As accountants, we are taught to present alternatives and to let clients choose from these. This is not the case when consulting. Lawyers hire consultants because they want to be told what to do. They want to know what you think, and you have to be sure of what you think when you speak.

Some other points

A partner in a law firm is expected to have between 1,600 and 1,800 billable hours. If the partner is not managing a book of business (a book is about $350,000), he or she would need to have 1,800 billable hours. If the book of business is over $350,000, 1,600 billable hours would be expected.

Associates should have somewhere between 1,800 and 1,900 billable hours. In an insurance defense firm, associates would be expected to have more than 2,200 billable hours.

Legal assistants are expected to have between 1,200 and 2,000 billable hours. Often not full-time employees, legal assistants offer law firms a cost-effective way of performing client work.

Billing rates for partners are typically $150 to $400 an hour. The rates for associates are between $80 and $180, and for legal assistants between $50 and $65 an hour.

Attorneys record time on their time sheet the way it is going to be billed to the client. They don’t write off work-in-process, billing the client pretty much for everything and worrying about collections later. We CPAs tend to write off work in process, but when we bill an amount, we expect to collect it.

So their accounts receivable write-off is much greater than ours, and our work-in-process write-off is much greater than theirs. Consequently, secretaries can do more of the billings for the attorneys. We CPAs are reluctant to let even managers do billings.

Law firms and CPA firms are similar in some respects. We both face liability issues, deal with the past, and are project oriented, rather than relationship oriented. Both law firms and CPA firms operate through a managing partner, need to confront partner issues, tend to avoid internal confrontation, and have difficulty managing people. And both lawyers and CPAs have difficulty treating their firms as their most important client, although we CPAs do a better job of that than lawyers.
CPA management strengths lend themselves to law firm consulting

CPAs have a greater sense of accountability than lawyers, and our industry has developed more policies and procedures (that is, standards). We are several years ahead of them in the use of performance-based compensation systems, and are better at marketing, training, team building, budgeting, forecasting, and tracking time.

The first step in a law firm management engagement is an operations assessment. Normally, CPAs do not charge for doing needs analysis, but in this instance it is appropriate. During this part of the engagement, we build relationships by talking to everybody in the company. We make sure there isn't anybody who won't know who we are. One of the reasons is that in a law firm the client may change from time to time. Sometimes the client is the managing partner, other times the senior partner.

In point of fact, your real law firm client is the person who makes decisions, who wants something different, and who has control of the checkbook.

It is essential to determine whom you have to interview and in what order, who is going to do the interviewing, and how many hours the whole assessment is going to take. We find it takes six to eight weeks to do the entire assessment (interviews, focus groups, surveys, brainstorming, and reporting). Our experience shows that each assessment takes at least 150 hours.

We set up an initial meeting with the partners of the law firm, another with associates, and one with staff. We explain who we are, what the law firm is trying to do (e.g., trying to meet the challenges facing it), and share with staff why we think there will be changes. We distribute surveys, let people know their input is essential and confidential, and tell them the surveys can be returned anonymously. We give everyone about ten days to return the surveys to us.

We interview the partners individually because we need to develop relationships with them. We don't want them to think we are at the mercy of the managing partner or the senior partner. We also look for their candid responses which are shared when they are alone in the room with us.

The next step is to gather some documents we need. These typically include the personnel guide, policy manual, agreements with "of counsel" attorneys and retired partners, as well as agreements within the partnership.

Additional issues to keep in mind: 1) Tread lightly with the firm administrator. Often, this person might have been promoted from a secretarial position and is not up to the job. You have to be careful not to be perceived as coming in and having someone fired. You might just work around this individual. Make sure administrators understand that you can be the best friend they have in the firm, if they will let you. 2) Be careful to include a paragraph in the engagement letter stating that you are not reviewing financial information. Make sure the client understands that this is not an accounting engagement.

When our firm prices an operations assessment, we do not do it at standard rates. I view it as if we are being paid to do a needs analysis that offers an opportunity to work with a law firm. The reward will come later when we work on the action plan and present a road map to positive change.

I charged $6,000 for my first law firm operations assessment. It involved four people in our office, and the job took 150 hours, so the realization rate was horrendous. With $18,000 sunk into it, I wrote off $12,000. The law firm paid us $120,000 in fees during the first year of implementation. It turned out to be a pretty good investment.

After an operations assessment, the average realization rate per hour of a law firm client in the management area is between $95 and $100 an hour, depending on the team's standard rates. Ours were $165, $105, and $75 per hour for partner, manager, and senior, respectively. How many other client engagements do you have where you realize $100 an hour on a regular basis? In most instances, it is worth the bite on the assessment because of the realization rates on follow-up work.

What ends up in an action plan

Lay out the action plan in chronological order. Tell them what you are going to do, why you think it is important to do this and that, what the various time frames are, and how much money is involved.

Lawyers don't have much experience with partner retreats. They don't know how long one is supposed to last, what they should do when they get there, and so on. They need a facilitator. If you are too close to some of the partners to be an effective facilitator yourself, you can help them interview suitable candidates.

You will probably have to prepare the lawyers for this kind of experience. If they are tense and emotional with each other, you will have to be the calming influence. Remember that they are used to thinking about the past, not the future.
Don’t get into a situation where you promise something you can’t deliver, or are not willing to
learn. But don’t be afraid to stretch yourself. You
can learn anything you want to learn.

Compensation systems in law firms are tricky. My
experience has shown me that I have to be the facil-
itator—the person whose real job is to listen, not tell
them what to do. So I don’t say, “You should reward
billable hours or you should reward collections,
etc.” Firms have different criteria and need a system
that works for them. You have to find a balance.

Some lawyers, for example, think they do a great
job in training, so they build up hours in work-in-
process, especially in litigation, that are really
“training hours.” In addition, not everybody in the
firm should be training young lawyers. You have to
decide who is good at it, how you are going to mea-
sure it, and how much time somebody should be
allowed to spend training others. Similarly, there
are no hard and fast rules to deciding the rewards
for contributing to the welfare and growth of the
firm. Every time I go through this exercise, I learn
something new. It requires considerable study on
my part and a consistently open mind.

Some law firms operate without a managing part-
ner. The partners may have gone to high school and
college together. They are buddies. But when it
comes to running a firm, the emphasis on collegial-
ity makes it more difficult. Everybody’s opinion
becomes important.

The fact is that everybody’s opinion is not impor-
tant, all the time. Believing it is can result in one
person preventing the firm from taking the best pos-
sible action. Problems are often dealt with sporadi-
cally, rather than dealing with their root causes.

You can help them select a managing partner.
Help them select someone who sees a difference for
the firm, someone who is forward thinking and has
the ability to make good decisions. This should be
an individual who keeps his or her eye on the “busi-
ess ball” of the firm.

If you decide a law firm needs an executive com-
mittee, you will probably have to explain how an
executive committee should operate. Attorneys
sometimes don’t understand how to deal with poli-
cy issues on a regular basis. We usually recommend
that an executive committee begins by meeting
every other week. Then, once its members are fami-
lar with the proceedings, they can meet once a
month. The firm administrator deals with day-to-
day issues and should attend these meetings. The

executive committee deals with policy.

I find that lawyers don’t look at financial issues in
the proper context. We teach them how to read
financial statements. To accomplish this, we put
together an executive summary and a “flash report”
for one firm, and taught the controller how to pre-
pare an executive summary cover sheet for the
monthly financial statement. The summary showed
items needing the partners’ attention.

You can review all the processes in the accounting
department and determine why they are used.
Often, you will find that something is done a certain
way just because it always has been done that way,
and that another process would be more efficient.

In law firms, collecting accounts receivable
always seems to be a problem. The real problem is
client intake. Clients are not asked to sign retainer
letters and pay retainers on a consistent basis. Firm
policy is not explained to clients. Consequently, the
attorney mails “surprises” in the form of bills, and
the client does not want to pay.

Do not become involved in collection work or in
setting up a collection process. This is a dangerous
area for the CPA. Instead, talk to the attorneys about
client intake and go back to the root cause of the
problem. Help them design a process for bringing in
clients properly and financially appropriately.

There are many other ways you can become a
champion of law firm management consulting. You
can assist with marketing training, write job
descriptions for support staff, perform automation
analysis if you are fully aware of a law firm’s needs,
facilitate the establishment of an executive commit-
tee charter, help design buy–sell agreements, and so
on. But don’t try to do all of this yourself. It will
limit the amount you can earn. Form a team and
leverage in order to get it done.

Most important: If you want to enter any special-
ity area, you have to throw yourself into it. You have
to learn all you can about that particular industry,
study it thoroughly, and be prepared to take some
risks. Law firm management consulting can be par-
ticularly rewarding and give you tremendous sat-
satisfaction. I believe it could even enable you to love
public accounting again.

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OPPORTUNITIES IN TELECOMMUNICATIONS

A communications revolution has taken place in the United States during the past decade. Where once there was a single telephone network, there is now a set of regional systems connected by several long-distance networks. The successful opening of this market to competition has greatly expanded the range of services offered and driven down costs. Fiber-optics technology, among other developments, eliminates weather and solar interference and greatly increases the dependability, quality, and quantity of voice and data transmissions. New types of telecommunication services include specialized long-distance carriers and the 800 and 900 systems. And users benefit from improvements in modem baud rates and FAX machines.

I practice in a locale that has farsighted legislation in place addressing the future of telecommunications. Many companies in this area are leaders in the industry. I recognize that what is now a local boom will spread throughout the country and offer profitable growth opportunities to both CPAs and their clients. I believe it will be well worthwhile to gain expertise in telecommunications assessments.

A CPA who is competent in telecommunications can assist clients in

- Determining the lowest cost equipment.
- Choosing the best supplier.
- Projecting the value of using the new services.
- Analyzing the value of hardware and software investments.
- Determining the potential of new marketing techniques.
- Assessing reports and bills.
- Developing control systems for management.
- Planning and organizing.

The need for these services exists with nearly every client we serve. It is a rich field, not yet nationally recognized. One potential market, for example, is the growing number of well-paid professionals who work from their homes. These people need telecommunications advice outside the sales and marketing efforts of the telephone companies from which they buy services.

There are also some not-so-obvious opportunities for the CPA practice itself. Some practitioners use modems to transmit income tax returns to the Internal Revenue Service. But how many of us use the 800 billing service, 900 consulting lines, or the billing and reporting systems available?

Right now, any practice can grow and, with a small investment, become a better provider of services. You can, for example,

- Use FAX equipment to move documents and information quickly and economically. You can send useful information to clients en masse or to selected targets.
- Obtain information from all three major long-distance carriers (Sprint, MCI, AT&T) about WATS billing services. You can learn about billing and reports, analyze costs, and check out the security provisions available. Then you can let clients know you have this knowledge.
- Install a 900 consulting line. This offers considerable potential for attracting new clients. Moreover, a number of present clients will want to know about the service and how to use it profitably themselves.

Best of all, with a 900 consulting line, a CPA firm is paid for the service but has little increase in overhead.

Understanding the tools

Understanding telecommunications necessitates recognizing a number of acronyms. A long-distance carrier (LDC) or a regional Bell operating company (RBOC) are some obvious examples. Others, such as a transmission span (T-span), are not so well known. (A T-span is a direct line from an LDC to a company's phone system that skips the RBOC so that calls will not be blocked."

When choosing an LDC, three items must be analyzed: the quality, inclusive of reliability, the cost for time on-line, and the billing and reporting documentation. Various reporting options exist and you will find that some LDCs offer security and special control and accounting provisions. Some LDCs bill through a local exchange company or an RBOC, and credit arrangements can vary advantageously.

In most of the nation, inside wiring is the responsibility of the customer. Interface takes place literally in the wall. It is, therefore, important to know purveyors of wiring services and system hardware.

There is an ever-increasing array of equipment from which to choose, ranging from the single-line desk phone to the computerized channel bank. Coming soon will be sophisticated systems that answer and return calls and direct, take, and send messages. We must be able to measure charges and relative performances of the various options in order to select the most cost-effective system.

If the need primarily involves outbound calling,
the process is relatively simple: Order local lines, install a line controller and phones, choose an LDC, or hire a telemarketing firm to make the calls. But planning for inbound calls is more complicated. If call volume exceeds the capabilities of a switching station, whether or not 800 or 900 numbers are used, you can expect an expensive confrontation if you don't plan properly.

There are at least three ways to protect your investment and avoid trouble. Invest in T-spans and the necessary hardware and software, and hire sufficient personnel to staff the phones; hire a service bureau to receive the calls; or use a specialty LDC to handle them. As you investigate the choices, you will usually find that

☐ An internal system has the lowest cost for line time and the highest cost of investment or commitment of credit. This may limit marketing activities or affect capitalization of other parts of the business.

☐ The costs of using a service bureau vary dramatically. In addition, there is the risk that if the business relationship goes awry, you lose the use of the telephone number in which you may have made a substantial investment.

☐ Specialty LDCs offer considerable ability to tie together the various resources needed to service customers' needs. They are a low-cost investment but their line time costs are high.

The quiet revolution

The information age is upon us and we CPAs, as professional information managers, should become sophisticated in the use of telecommunications equipment. The opportunities are boundless. Potential markets include assisting clients to grow with 800 number telemarketing, helping other professionals set up 900 number consulting lines, helping clients choose the most cost-effective plans, and advising them on security and cost controls. And in addition to advising other professionals on the use of 900 lines, we should consider their use in our own consulting practices.

To summarize, we need to be concerned about three points: the methods of capitalizing the required investments, understanding and controlling the operating expense, and, most important, protecting the investment through proper planning. These points are key to the successful implementation of telecommunications technology.

Behind us lies a revolution, done quietly in a courtroom, changing the tools we use to communicate. Before us are opportunities in what some call a new age, another wave of economic change. I am concerned that the benefits be understood and managed by competent professionals. If we don't provide the service, someone else will, and I ask the reader to consider whether this field is part of our purview. I for one say it is. ✓

—by Ronald J. Goracke, CPA, Goracke & Associates, PC., The Mark Building, Suite 203, 9290 West Dodge Road, Omaha, Nebraska 68114
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PROVIDING PERSONAL FINANCIAL PLANNING SERVICES

Personal financial planning is the development of a comprehensive financial plan which seeks to make maximum use of financial resources while recognizing individual uniqueness and the various stages of life that people experience. Such a plan must encompass many details and not address just one aspect of a client's financial picture.

A comprehensive plan is comprised of several key parts. There should, for example, be a clear-cut statement as to the goals and objectives and a general assessment of the client's overall financial condition. The plan should also contain a review of the income tax situation and suggest some planning techniques.

It is also important to determine what should be done regarding death, disability and retirement. The plan should, therefore, include a review of insurance needs; retirement plans; health, accident and disability insurance; and Social Security benefits.

Estate planning is another essential ingredient. This should include reviews of the client's objectives for the disposition of the estate, wills and/or trust agreements, the estate tax exposure and applicable planning tools.

The final part of personal financial planning is to develop an investment strategy which is compatible with the personal investment preferences of the client. Such a strategy would include a cash-flow projection to determine the amount of discretionary income and a proposed investment portfolio that meets the client's goals and objectives.

Certain basic ingredients of a financial plan must be covered. They come under the broad headings of annual income, shelter, cash reserves and life insurance. When these items have been taken care of, a compatible investment strategy can then be devised.

Reflecting the client's stage of life

Care must always be taken that the financial plan is tailored to the needs of the individual client and is not overly influenced by the planner's personal prejudices. It should also reflect the client's stage of life. These stages can be broadly categorized into five distinct areas.

- **Employed before marriage.** Client basically concerned with self and can afford higher risk. Time permits the individual to take a long-term growth perspective. Insurance is not relevant.
- **Married before children.** Insurance is relevant at this stage, but it is not a substantial factor.
- **Married with pre-college children.** Expenditures increase sharply but there may be a significant rise in income, too, making tax planning necessary. Insurance protection becomes important and the client may be concerned about future college costs.
- **Children have left the nest.** Client's earning power is likely to be at its peak and the investment strategy should be aimed at building up capital. Risk aversion becomes important and life insurance needs should be reviewed. At this stage, the client may even have thoughts of a second career.
- **Retirement.** Client may have embarked on a second career—at any rate, maintaining a comfortable income is a concern. Client now has greater freedom and independence and the investment strategy should be to avoid extremes.

The financial planning process

To ensure that a plan is developed to suit a particular client, the partner-in-charge should meet with the client to explain the philosophy of financial planning and to determine the client's priorities and objectives. Formal consulting arrangements should be established and an engagement letter prepared and signed.

Depending on how much information you have in the files, you can ask the client to fill out data-gathering forms. Then, the required documents should be assembled and the data reviewed for completeness and accuracy with the client.

We use a microcomputer and the Leonard software system to process the data. From the initial output, we develop the plan, and prepare illustrations, comments and recommendations. While much of this work can be done by paraprofessionals, the final review must involve the partner-in-charge as well as the financial planning partner. The final step is to present the plan to the client and to start the implementation process.

Various professionals and business organizations are now providing personal financial planning services. These include certified financial planners, banks and brokerage firms, life insurance companies and, of course, CPAs. Of the group, CPAs are by far the best suited to provide such services. They
know the client and have the requisite knowledge of income and estate taxation. A financial plan needs to be updated each year and CPAs do the client's taxes each year. CPAs have the required analytical ability, objectivity and independence.

Establishing a financial planning practice
As with any new firm endeavor, the success of providing personal financial planning services will depend upon the degree of commitment of the firm's partners and the application of sufficient resources. Both are essential as is having a partner in charge of the program.

We do not think it is possible to establish a financial planning practice without utilizing a microcomputer and a suitable software package. The number crunching is just too great. It is also necessary to develop a system and procedures for providing the service and to set firmwide standards and guidelines. Partners and staff must be trained on the system and to meet the requirements of providing the services. This can be accomplished through conference participation and CPE courses.
How to promote and market financial planning services

Financial planning can be promoted in much the same way as other firm services. You can utilize client and specialty newsletters, conduct your own seminars for clients or with concerns such as brokerage firms where you can get some of the credit. You can prepare a brochure on financial planning and give speeches before civic associations and other groups. Another idea is to establish relationships with consultants, financial planners, attorneys, brokerage firms, etc. Let them know you have the expertise. Of course, the best way to market any service is through referrals resulting from successful engagements.

You must prepare a budget for the development of this part of the practice for both time and dollars, and you must monitor its progress. Financial planning is a complex area, and you want the service to grow at a pace you can control. You must also be wary of tax-shelter products. Many of them are economically unsound. You may want to seek the advice of other CPAs who have evaluated these products or subscribe to a service such as Stanger Reports.

CPAs are financial planners and clients are looking for personal financial planning services. If CPAs don’t supply this need, someone else will. It is a tremendous market. Just one example—big corporations are looking for ways to reward key employees now that some of the traditional perquisites have been eliminated. It does not take any longer to persuade a corporation that you can provide such a service to key employees than it does to persuade an individual. Just remember that the most important part is helping clients implement the plan. Don’t let them put it in a drawer and forget about it.

—by Robert F. Warwick, CPA
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PITFALLS TO AVOID IN PROVIDING PERSONAL FINANCIAL PLANNING SERVICES

Much attention is being directed in the professional literature to the opportunities available to CPAs to provide personal financial planning (PFP) services. My aim in this article is not to dissuade CPAs from providing these services, but to point out that this area, like any relatively new business opportunity, has a number of pitfalls. Practitioners wanting to exploit this service segment should be aware of them. This is particularly important because PFP services are different from the more traditional services furnished by CPAs. In fact, a common element of the pitfalls outlined below is that they reflect the unique nature of personal financial planning.

The accompanying exhibit illustrates the environment of personal financial planning. Several of the threats to success are directly related to the financial planner's failure to be cognizant of the complex and interrelated dimensions of this environment.

Not committing sufficient efforts to this practice segment. Developing and maintaining expertise in financial planning as well as promoting this service require significant commitments of firm resources. Treating personal financial planning services as a relatively minor sideline endeavor will not result in success. Comprehensive financial planning requires expertise in many areas, including insurance, borrowing and credit, investments, tax planning and tax shelters, retirement planning and estate planning.

The breadth of knowledge required in these areas, combined with the complex environment of financial planning, is indicative of the magnitude of effort required to build an effective financial planning department.

Failing to direct sufficient attention to the particular area of client interest. In many instances there is an event or problem which stimulates clients to seek your services. In other words, there is a specific reason for the engagement, such as concern about accumulating an adequate retirement fund or disposition of a substantial inheritance. While comprehensive attention needs to be paid to every area, the CPA should be careful not to shortchange the key engagement concern.

Not considering the client's personal preferences. No two clients are alike, either with regard to their financial status or to their personal qualitative status. These qualitative considerations are shown in the exhibit and include personal preferences, biases, health and experience. They are important and should influence the direction of the financial planning engagement as well as the resulting recommendations. For example, analysis of a client's overall investment portfolio may suggest that it is too heavily weighted in fixed-income investments and that there should be some shifting into equity investments. If the client is averse to investing in the stock market, however, it is not appropriate to pursue that issue. Effective CPA financial planners are skilled in developing an understanding of their clients' preferences.

Overreliance on computer models. Financial planning software is an excellent tool for analysis of client data. Nevertheless, it is only a tool. Considerable judgment is necessary on the part of CPAs in order to appropriately evaluate clients' individual circumstances and needs. For example, the computer might indicate that a client family will need to save $8,000 per year in order to fund the children's education costs. This amount may be way beyond
the means of the particular client, however, and the CPA must tailor recommendations to reflect the client’s actual circumstances.

**Providing your client with incomprehensible reports.** Many financial planners succumb to the temptation of providing their clients with extensive, boilerplate reports, containing much that is either not relevant to the client’s individual circumstances and/or not readily understood by the client. Personal financial planning clients, just like business clients, want reports that are succinct and appropriate to their individual needs. They will appreciate a brief report, often less than ten pages, that is specific to their immediate requirements.

**Overreliance on tax considerations.** Because CPAs are skilled in tax planning, they often build their financial planning processes around tax considerations. True, tax issues permeate virtually every functional area of financial planning. Overreliance on tax planning as part of the financial planning process, however, may result in overlooking certain important nontax considerations. For example, some clients are so preoccupied with saving taxes that their portfolios are too heavily weighted in tax-sheltered investments and tax-exempt securities. In short, saving taxes should not outweigh other important financial planning considerations.

**Not assisting the client in implementation of the financial plan.** The typical CPA financial planning client is too busy to implement many of the recommendations contained in the financial plan and would like assistance. The CPA should, at a minimum, work closely with other professionals such as stockbrokers, insurance agents and bankers in coordinating plan implementation. In essence, the financial planner will act as the quarterback in seeing to it that the plan is appropriately implemented.

**Failure to follow up with the client.** The financial planning process is an ongoing one. It does not end with the delivery of the report, nor does it end after the report recommendations have been implemented. The CPA financial planner should follow up regularly with clients to monitor their progress and to account for the inevitable changes in personal circumstances that will occur. Make it clear at the outset of an engagement that the relationship will be an ongoing one.

**Not staying up to date.** The effective financial planner will constantly keep up to date with the latest thinking in financial planning as well as the latest exogenous conditions that influence financial planning strategies—such factors as economic outlook, current interest rates, stock market performance, and expected tax reform, for example (see exhibit). This is important because a successful financial planning practitioner inevitably receives frequent spontaneous questions from clients that require knowledge of current economic conditions and financial planning products. Typical client concerns include the desirability of contemplated equity or fixed-income investments, year-end tax planning strategies and contemplated tax-sheltered investments.

**Showing reluctance in promoting the services.** Although eminently suited to render high-quality financial planning services and having in their existing clients a built-in potential source of business, CPAs tend not to aggressively market their capabilities. This is particularly unfortunate in view of the competition for financial planning services presented by far less qualified and less objective “financial planners.” There are a variety of ways in which CPAs might appropriately promote their financial planning services, including mailings to existing and potential clients, holding seminars and encouraging recommendations by satisfied clients. Some CPA firms are setting up separate financial planning entities, in part so that they can more aggressively market their financial planning services.

Although the pitfalls are there, they can be avoided. Practitioners who are sufficiently committed to devoting the time and effort needed to render high-quality services to clients will find financial planning to be a fascinating and rewarding area of professional practice.

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AN INSIGHT INTO THE FINANCIAL PLANNING NEEDS OF PROFESSIONAL WOMEN

American women today have more money, more salaried jobs, and more political influence than ever before in the history of the United States. But, according to a study by the U.S. Census Bureau, their average pay is still only seventy percent of the average pay earned by men.

A survey, "Americans Cope with Their Finances," that was released in June by the International Association for Financial Planners, revealed that there are two issues that concern women more than men. One is the fear of outliving their retirement money; the other is that their net worth is less than they wish it to be. Given that financial planning is a timely subject, let's look at these concerns.

Fear of Outliving Retirement Money
The survey showed that fifty percent of the women with salaries over $50,000 are concerned about outliving retirement money. Women should manage their incomes and savings as prudently as possible to minimize this concern. They might therefore find it advantageous to engage a practitioner to calculate their retirement funding needs and to embark on the regular savings program that will be required to meet those needs.

Both the working woman with a salary and the nonworking woman with income from capital should be familiar with tax-favored retirement plans and the special benefits these afford. It is predicted, too, that by 1990, forty-three percent of new businesses will be started by women. Women, therefore, should be aware of Keogh and HR-10 plans, as well as the restrictions on and benefits of corporate retirement plans and investments in Individual Retirement Accounts. They should also be aware that retirement plans include an element of risk, and that they should assess that risk as it relates to their particular financial positions.

Net Worth Is Below Expectations
According to the study, forty-nine percent of the high-income women stated that their net worth was less than they wished it to be. There are significant ways they can maximize their net worth, however.

For the professional woman, one of the best ways to create equity is by investing in an apartment or house. A survey conducted in 1987 for CIGNA Individual Financial Services Co. revealed that seventy-nine percent of wealthy individuals held real estate investments, and were planning to increase these investments the following year.

Aside from inflationary pressures and rising demands for homes, there are a couple of other reasons why real estate has generally been a good growth investment. The substantial leverage afforded by a mortgage and the tax deductibility of mortgage interest make investing in an apartment or house attractive, and a suitable method for the professional woman to create equity.

Insurance Is a Major Need for Women
The cost and value of life insurance should be carefully evaluated, too. The single-premium, whole-life insurance policy, for example, can be valuable for single women with children who have a special need for life insurance to cover their children's basic support and education. Consideration must be given, though, to single-premium, whole-life policies being the subject of Congressional debate at this time. The taxation of withdrawals and loans from such policies may be altered in the 1988 Technical Corrections Act. Withdrawal penalties, surrender fees, and the flexibility of the policy are a few more factors that should be considered to ensure that the policy fits into the woman's overall financial plans.

The woman who depends on her own earning power should consider the impact that disability could have on her net worth. Buying disability insurance requires substantial investigation and comparison because the type, terms, and cost of coverage vary widely from policy to policy and company to company. Also, the insurance industry has set an overall requirement that disability coverage may be no more than sixty percent of current salary.

Whatever the current financial concerns of a woman and however they are met, it cannot be overemphasized that a woman should know her long-term goals. The real benefit of financial planning is the setting of these long-term goals.

To be effective, goals should be specific, personal, measurable, and attainable. They should be written down for immediate as well as future review and affirmation. This will help women meet the real challenge of the 1980s—that of gaining financial equality through effective planning.

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August 1988
THE REBIRTH OF PERSONAL FINANCIAL PLANNING

A number of firms began formally offering personal financial planning (PFP) services a few years back but were unsuccessful. Some firms used the wrong planning model—one adapted from sales-driven industry—or made marketing mistakes because they over-estimated clients’ willingness to pay for the service. Others were distracted by multiple software choices and by confusion over investment adviser registration.

Now, however, there are a number of demographic factors fueling demand for PFP services. In a presentation at an AICPA management of an accounting practice conference last year, Kaycee W. Krysty, CPA, CFP, director of Moss Adams/Personal Finance Network, talked about some of these factors and about how to profitably meet the market’s demands. The following comments are based to a large extent on Ms. Krysty’s presentation.

An aging population is one such factor. With more people living longer—until they are eighty or ninety years old—the ratio of workers contributing to the Social Security system to retirees receiving payments from it is decreasing. Workers, who are able to save only a low percentage of their earnings, worry whether Social Security will be available for their own retirement.

Nevertheless, household income and household wealth are increasing. And there are significant sums of money already accumulated in private retirement plans. By some estimates, the average inheritance for individuals of the “baby boom” generation will be about $90,000.

People already retired, those facing imminent retirement, and people of the baby boom generation, whose retirement is still a few years hence, need help with their personal financial planning. People need to plan for the financial needs of their children and for large purchases such as automobiles and housing. Increased wealth also means that people need help with their estate and investment planning.

Why demand is growing

There are a number of reasons why people are seeking help with financial planning. An important one is to achieve financial independence.

Even seemingly wealthy business owners are not always financially independent. A review of their balance sheets might reveal they own a business, but not much else besides a few cars and a nice house. Part of your goal should be to make them not only financially independent, but independent of their businesses. You can provide a valuable service to such business owners (and their key executives) by making sure they are putting sufficient money into their Keogh and 401(k) plans, and know how to manage their stock options.

Another reason people are seeking financial planning help is because they have a special objective. This might be to purchase a second home or, perhaps, to establish a fund so grandchildren may attend college. Whatever the reason, helping people find a way to achieve and fund a special objective is a valuable service to them.

Estate planning is an area of increasing concern. CPA firms often perform this service independent of PFP. Whether or not you bundle estate planning into financial plans, you will find a growing number of younger clients are ready to hear about the various aspects of the service.

Personal financial planning basically boils down to helping people save and invest. But if all you discuss is how to save or move wealth around, you are only performing half of the service. You need to give investment advice.

Some firms don’t think it necessary to discuss investments when doing financial planning. But if you wish to really help clients, you need, at least, to talk about asset allocation—cash, stocks, and bonds—and whether the individual would be better off in municipal bonds or taxable bonds, and so on.

Then there are the challenges that stem from life compression. This is the situation that results when a couple defers having children for career reasons. There are still children at home and children to educate when the couple should be preparing for retirement. Often, there is the additional challenge of aging parents.

Dual careers can result in other complications. When you factor in additional payroll taxes, the costs of day-care and commuting, etc., the couple is often not appreciably better off than a comparable one-income family.

Sometimes people are not comfortable about their inheritance or they feel ignorant about investing the money they are bequeathed. Many in the baby-boom generation have never learned to handle money properly. Now they must cope with the most sophisticated financial marketplace ever.

Others worry about career and job redundancy and fear employer abandonment. And many view entitlement programs, such as Social Security, as unreliable, and are concerned about their financial well-being in retirement.
PFP and PFS Information
The AICPA PFP membership section’s benefits include Personal Financial Planning Handbook; technical practice aids; the Planner (a bimonthly newsletter); various marketing, practice management, and promotional materials; and vendor discounts.

The AICPA personal financial specialist (PFS) designation is offered exclusively to qualified CPAs who have at least three years of personal financial planning experience, and have successfully completed a comprehensive examination.

For more information, call the AICPA PFP Division, (800) 862-4272, submenu no. 5.

Meeting the market’s demands
Clients want more than just solutions to their problems; they want a solution plus education. People aren’t satisfied with a recommendation. They want to understand how it will work for them. Clients want to learn about financial planning. They want a process they can follow and they want it to be simple and convenient. Clients also want disclosure, so let them know you are independent and objective.

Be efficient, from a practice perspective. With financial planning services, as with many other consulting services, you have an opportunity to organize your practice so you can deliver value at a price the client is willing to pay.

You need the right people on staff to provide the service. They should have a natural interest in the topic and good consulting skills. They must be able to probe and get clients to talk. The staff should be knowledgeable. That usually means having extra education in the area of personal finance, such as achieving the advanced designations of personal finance specialist (PFS) or certified financial planner (CFP).

Successful financial planning specialists are on a mission. They believe they are going to solve people’s problems and change their lives for the better.

Try to find clients with similar profiles for the level of service you intend to provide. For example, the physicians in your client base who have solo practices and are fifty years old or older are all dealing with similar problems. The service should be matched to clients’ needs and ability to pay.

Control clients’ expectations. Prepare an engagement letter that tells clients specifically what you are going to do during the engagement. For example, “We are going to help you formulate a game plan to have adequate assets at retirement. We are going to advise you regarding the tax implications of your stock options,” or what ever. Tell them you are not going to do anything else unless asked, and explain that “these things need to be updated from time to time. Call us if you want us to do that.”

You will need to establish a consistent methodology. You work on a financial plan the same way you work on any other project, so your work paper techniques need to be similarly consistent.

Become sophisticated in the use of a computer. Most firms with successful PFP practices use spreadsheets and templates they have developed to meet clients’ specific needs. They make extensive use of graphics because this helps clients learn about financial planning.

You will need to establish a consistent investment policy. This should be clearly articulated so the client knows exactly what to expect: that you will help with an asset allocation, or whatever. Otherwise, you will get to the end of the engagement and the client will say, “Well, aren’t you going to tell me where to put my money?” This is part of controlling client expectations, and needs to be firm policy.

Making money at it
What are your options? Once you have identified the problems and opportunities, you can realize high personal charge hours at high billing rates for PFP services. Some CPA firms have started to offer money management services; others are helping clients choose mutual funds. Some firms charge a flat fee for these value-added services, others a percentage of assets under management.

An increasing number of firms are teaching clients to manage their money via a series of seminars. Clients go to the seminar, spend some time with staff on the analysis, and walk out with a complete financial plan. This is different from holding seminars to attract clients. These seminars are the service.

Some firms have developed PFP subniches. For example, they concentrate on medical professionals, athletes, entertainers, or the elderly. A successful way to market to a subniche is the “famous person” concept. All this really means is that you become so well-known in your community for your expertise in a specific area that people naturally call you first for advice and answers to their questions. It also means you must be able to work with the media.

One way to establish a good working relationship with media people is to remember they are always facing deadlines. If you call them with a good story idea,
you will make life easier for them. If you are successful at this, you will find it makes a considerable difference to the marketing of your financial planning practice.

So there you have it. PFP is making a strong comeback. Decide if you have what it takes to offer the service. Determine whether you have the right people, the clients, and the methods to be successful, and then, how you will get the word out. If you pursue the famous person strategy, what is it going to take to make that a reality? How are you going to let clients know? Clients want the service. You are encouraged to consider it.

—by Phyllis Bernstein, CPA, PFS, AICPA Personal Financial Planning Division, Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey 07311-3881, tel. (201) 938-3808
Why APFS? Why CPA?

Why should I become an APFS? CPAs are increasingly asking this question. The accredited personal financial specialist (APFS) designation is still relatively new. The profession's concern is timely. The answer to the question, though, is simple. One should seek the APFS designation for the same reasons one sought the CPA certificate.

At some point in the past, each AICPA member decided he or she wanted to be a CPA. The reasons varied. Some people sought acceptance in the business community. Becoming a CPA provided this acceptance. Personal achievement guided other people. They wanted to attain accountancy's highest credential. Others were attracted by the financial rewards they believed the CPA certificate could help them achieve. Contributing to the community motivated some aspiring CPAs. Others wanted to go into business for themselves. They decided the CPA certificate was an entree to self-employment. The CPA certificate was desirable for these and other reasons.

The reasons for attaining the CPA certificate explain exactly why a CPA would also seek the APFS designation. It, too, provides professional acceptance, personal achievement, financial rewards, the chance to help the community, and the opportunity for self-employment.

Clients clearly benefit when their CPAs attain the APFS designation. People need to engage in personal financial planning. Many are looking for an adviser who will objectively help them choose from among their financial alternatives. Who can be better suited for this job than their CPA? In all probability, they will expect their CPA to provide personal financial planning services.

Many clients need help in setting goals. Some clients talk about their desire to increase income while decreasing tax obligations. Making more money and paying less tax are not goals, however; they are general statements of attitude. Goal setting can be difficult. The client benefits when the CPA leads the way.

The CPA can identify and quantify the client's goals and array the plans that will meet them. The CPA and client can choose the best alternative. The chosen course of action will need implementation and monitoring. Further, plans usually need periodic updating. The CPA who has developed his personal financial planning skills can take the lead in helping the client.

Clients trust their CPAs. The fee-only CPA is unbiased, has knowledge of the client's financial affairs, and is an objective adviser. Clients naturally want to consult with such a person about their personal financial choices before making decisions. The CPA will enjoy the work, better serve present clients, and expand the opportunities for more engagements and a larger client base.

The CPA is already a highly respected professional. Adding the APFS designation will provide new work from present clients, strengthen relationships, and build loyalty. In addition, well-served, satisfied clients frequently become good referral sources.

The CPA can also personally benefit from the application of this knowledge and skill. My interest in personal financial planning began when I wondered how old I would be when I reached financial independence. I thought that the question was in the natural province of the CPA and there should be an objective way to arrive at an answer. I studied the literature, found an approach, and made the analysis and calculations for that part of my personal financial plan.

In addition, I wondered if I were carrying the right amount of life insurance. This was another question that lent itself to the skills of the CPA. Again, I learned how to analyze and calculate what was needed to satisfy this aspect of my personal financial plan.

Prior to obtaining the APFS designation, I had been vaguely moving forward regarding my retirement and life insurance needs, but had been unsure of exactly what I was trying to accomplish. I could not quantify my goals or my progress toward meeting them. The skills and knowledge attained through study were used to put order and coherence in my personal financial plan. As a result, I had clear goals and a plan that would allow me to meet my objectives.

Then the light bulb came on. If I needed this guidance, there must be many clients with the same need. I owed them the opportunity to achieve their goals and objectives by providing them with personal financial planning services. That is when I decided to become an APFS.

Although other personal financial planning credentials exist, only CPAs can hold the APFS designation. Each new CPA/APFS adds to the awareness of the qualification, and the public will come to associate it with quality financial planning services. Some years ago, our predecessors made the CPA certificate the standard of excellence in accounting. If we
The APFS Designation

The AICPA accredited specialist designation program is voluntary. A CPA can practice in any specialty area without participating in it. There are several reasons why a CPA providing personal financial planning services should consider obtaining the accredited personal financial planning specialist (APFS) designation, however.

First, the program protects the public by assuring that providers of these services are competent. Uniform standards are used in evaluating claimed expertise, and accredited specialists are provided with opportunities to keep up-to-date and improve their skills and expertise. In addition, the program brings together members with similar interests, facilitates client referrals, and helps smaller firms become more competitive in specialty areas of practice.

To qualify, a candidate must

- Be a member in good standing of the AICPA.
- Hold a valid and unrevoked CPA certificate issued by a legally constituted state authority.
- Have at least 250 hours of experience per year in personal financial planning activities for the three years immediately preceding the application. This experience must include the personal financial planning process, and personal income tax planning, risk-management planning, investment planning, retirement planning, and estate planning.

- Submit a written statement of intent to comply with all the requirements for reaccreditation.
- Pass the APFS examination.
- Submit six references to substantiate working experience in personal financial planning.

The examination is given semiannually (the next examination will be held on September 27, 1991); the number and location of testing sites depending on the number of candidates taking each examination. A list of testing sites is published in the PFP division's newsletter, Planner, and is mailed to candidates.

APFS designees must pay an annual reaccreditation fee and recertify their accreditation every three years. In addition to other requirements, reaccreditation necessitates the member have at least 750 hours of experience in the various areas of personal financial planning over the preceding three years, and to have taken at least 72 hours of financial planning courses in prescribed disciplines during that period. In addition, the member must complete an internal practice review questionnaire that provides information to determine whether he or she has met the reaccreditation requirements.

Information packages about the APFS program and applications for the examination can be obtained from the AICPA personal financial planning division, tel. (800) 966-7379.

can make the APFS designation the standard of excellence in personal financial planning, it will be even more important to the next generation than it is to us today.

The personal financial planning field will continue to grow and the practitioner who overlooks this opportunity hurts himself. Clients will find someone else to provide these services if their CPA does not. CPAs might keep in mind that many people use the title "personal financial planner." The APFS designation differentiates the committed CPA practitioner from the crowd. The CPA benefits by having credentials showing demonstrated competency in personal financial planning. Quite clearly, becoming an APFS is the best route for the CPA to take.  

—by Houston D. Smith, Jr., CPA/APFS, Smith and Raab, CPA Financial Planners, PC., 400 Decatur Federal Building, Decatur, Georgia 30030
How to Market Yourself as a Financial Planner

Early last year, the AICPA personal financial planning (PFP) division began researching clients' perceptions of CPAs as financial planners and the value they place on financial planning services.

For the most part, the study showed that CPAs can be considered credible providers of personal financial planning services, but are perceived as dealing with historical information and taxes, rather than as forward-thinking planners. Also, CPAs are not seen as knowledgeable or up-to-date on the investment markets.

CPAs do have one trump card, however. The study found that the AICPA personal financial specialist (PFS) designation provides the most compelling message in differentiating CPAs from other financial planners. The findings also offer some valuable insights into how to market yourself as a financial planning advisor and provide services that clients want.

What clients want
Clients view a financial planner as someone who is qualified to organize finances and provide advice and guidance to help them meet their objectives. They usually hire a planner when they are entering a new stage of life or when their financial position or planning objectives change significantly, and frequently turn to different professionals—stockbrokers, lawyers, and insurance representatives—for separate needs. Clients expect to establish a professional relationship over time with these individuals to accommodate needed adjustments as their situations change.

When choosing a planner, experience and track record, and professional reputation and references are the most significant factors considered.

Experience is important, primarily because clients view a financial planner as someone they are trusting with information and decisions that directly affect their lives. Clients consider personal recommendations valuable when assessing the reputation of a financial planner, and take into account the success of the planner's other clients' investment portfolios and the planner's own portfolio. Educational background is helpful, but an impressive résumé does not carry much weight.

Although cost is a consideration, clients said they thought most financial planners were competitively priced and did not believe the least expensive was necessarily the best choice. They did favor a fee-based method of compensating the planner, over paying commissions, however.

What clients are looking for in a financial planner is someone who is responsive, who listens to them, who can relate complex technical information in understandable terms, and who remains informed about their needs. More than anything else, clients want to feel comfortable when talking with their financial planner.

Marketing implications
Rather than emphasizing capabilities first, CPAs need to demonstrate their ability to listen and respond to the client's needs. While education is certainly important, when a client is contemplating hiring a financial planner, it is the way the individual listens and responds that leads most clients to select one financial planner over another. Thus, strong communication skills are important. When it comes to financial issues, CPA financial planners need to demonstrate an ability to explain technical concepts in understandable terms.

Clients' comments show that CPA financial planners need to disprove the perception that they are too conservative and cautious, and too focused on historical information. CPAs should take steps to dispel the notion that they are not forward-thinking and not trained in planning and investments, particularly since the success of managed portfolios is a consideration in the selection of a financial planner.

To overcome these perceptions, emphasize how valuable you can be in keeping clients up-to-date on the investment markets. Provide clients (and prospects) with a detailed list of the services you can perform. Many people don't exactly know what a financial planner can do, and making them aware of the planning services you offer can help lay the groundwork for long-term relationships.

Given the positive reaction of the study participants to the PFS designation, CPAs who have attained the designation should promote what this means to clients. Marketing and communication efforts should focus on areas where CPAs are better suited than competitors to be personal financial planners and should emphasize perceived traits, such as CPAs' stability, trustworthiness, accountability, objectivity, and attention to detail. CPAs are known for their objective and trusted advice, and these characteristics can be emphasized to remind clients why a CPA should be the financial planning advisor.
The approaches should be tailored to build awareness of CPAs as future-oriented, creative planners, and away from any view of them as narrow, "backroom" tax specialists. If marketing budgets allow, consider using print and radio media to build awareness and to more quickly broaden perceptions of CPA financial planners.

The next few months will provide many opportunities for you to offer personal financial planning services as you work with clients on their tax returns and discuss changes in the tax law that affect their situation. Look for opportunities to provide clients with the type of information they need, and let them know you have financial planning ideas such as those on the next page.

**Four Year-end Planning Strategies for Charitable Clients**

Because of constantly changing tax laws, it's a good idea to talk about planning strategies with clients who are charitably minded. Now is the time to tell them about personal tax planning ideas and to provide valuable information on strategies to help them take advantage of the latest planning options available.

**Documenting charitable donations**

Clients who itemize deductions may deduct charitable contributions of cash and property for income tax purposes, within limits. Canceled checks are no longer sufficient to document charitable contributions over $250. You now need a receipt. When you receive goods or services in exchange for your donation of more than $75, the charity must notify you about the value of items you received. You can only deduct the amount of the donation that exceeds the value of those goods or services.

**Donating appreciated assets to charity**

Clients who donate capital gain appreciated assets to charities receive a deduction equal to an asset's fair market value and avoid paying capital gains taxes on the appreciation if they held the asset for more than one year. For example, let's say you own stock in ABC Inc. for which you paid $2,000 five years ago. The stock is now worth $10,000. If you contribute the stock to a qualifying charity, you would receive a charitable deduction of $10,000 and save any capital gains tax on the $8,000 appreciation. If, instead, you sold the stock to donate the proceeds, you would incur capital gains taxes and the donation of after-tax proceeds to the charity would be much less.

**Establishing a charitable trust**

Charitable lead trusts can provide clients with a current tax deduction based on government tables, while giving the charity annual income for a fixed number of years. At the end of the trust's term, the client or the client's heirs receive what remains of the contribution. By creating a properly structured charitable remainder trust, clients who own appreciated property can give to a charity in a tax-wise manner, in which they retain income from the property, with the charity receiving the full amount at the end of the term. A charitable remainder trust, which meets tax law requirements, entitles the creator to an immediate income tax deduction equal to the present value of the charitable remainder interest.

**Creating a private foundation**

Clients who are charitably minded might wish to consider creating a private foundation. Tax deductible contributions to a private foundation are generally limited to 30 percent of the donor's taxable income. Setting up a private foundation enables the client to make current charitable donations and retain control of a sizable gift. Income from assets donated to the foundation will no longer be taxable to the client, and the foundation can pay family members reasonable compensation for rendering services for the foundation's tax-exempt purposes.

Tax and financial planning are year-round services. Offer clients help and ideas to develop financial plans that addresses their specific goals and objectives.

—by Phyllis Bernstein, CPA, AICPA

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A LOOK AT LIFE INSURANCE

When personal financial planning clients ask you to evaluate their life insurance needs or assist them in choosing between competing proposals, it might help to give some thought to the conditions that affect today's life insurance products. Volatile interest rates and changes in the regulatory and tax climates are three such considerations. Other factors are the refusal of consumers to accept incomprehensible products and rates of return, and the increased flexibility of new products.

The product analyzer on page 3 offers an outline for identifying and understanding life insurance products, including the hybrids of the six basic designs. The analyzer is based upon two concepts.

The first is that life insurance is the "life insurance company money" to be received by a beneficiary upon the death of the insured. (The insurance industry calls this the net amount at risk.) By this, I mean that life insurance is specifically not the benefits receivable while the insured is alive. These benefits are commonly referred to as cash value, surrender value, or account value.

The second concept deals with the definition of policyowner dollars. These are defined as a policyowner investment, in which the policyowner elects to invest money with an insurance company in order to earn a financial return.

Term life insurance
If one accepts the above definition of life insurance, one way to contract for delivery of money upon the death of the insured is by purchasing a policy with the marketing name of term life insurance. With such a policy, you pay the insurance company only enough for the required mortality and expense charges for the period of time the policy is in force—usually one year.

As one can see in the exhibit, term life insurance can be obtained with or without insurance company guarantees. If an insurance company is not required to guarantee the following year's mortality costs, expenses, renewability, or convertibility, it can charge less for insurance. This type of coverage can be a proper solution to life insurance needs if the policyowner is aware of the limitations. It can be an unsatisfactory and expensive solution, however, if insurance needs extend beyond the guarantee period and no other company will agree to insure the life.

The insurance company can also issue the contract with long-term guarantees of mortality charges and expenses, allow for the continuation of the policy to advanced age, and extend the right to convert the policy to other contracts it issues. These are quality term life insurance policies because they give the policyowners control and eliminate their risk. Payment for either type of term insurance is made with after-tax dollars—up to the age of ninety-nine, if desired.

Purchasing term life insurance with pre-tax dollars is a viable alternative to paying for it with after-tax funds. This can be achieved if the interest which is earned on the policyowner's funds is used to pay the mortality and expense charges. There are four basic varieties of this type of policy available. They are described below.

Whole life
Whole life has less risk and more certainty of results for the policyowner than the other types of insurance shown in the product analyzer. Part or all of the level-billed premiums may be paid by using dividends or by taking policy loans, although the Tax Reform Act of 1986 has made policy loans less desirable because of the restrictions on the deductibility of policy loan interest. If additional life insurance is desired because needs have changed, the policyowner must pass a medical examination and purchase a new contract. Requests to reduce the face amount have to be sent to the insurance company along with the policy.

Whole-life policies are suitable for those who can afford the premiums required for greater predictability of performance, and may be the best alternative for people who cannot obtain life insurance at standard mortality rates. They also work well when a corporation which owns the policy wishes to show a predictable minimum impact on earnings.

Universal life
As in the case with whole-life policies, the owner of a universal-life policy does not have any control over the investments which, in these policies, are in short-term interest-sensitive vehicles. The only practical way to change the investment is to withdraw the principal up to the cost basis in the policy and/or borrow amounts in excess of basis and invest them somewhere else. Again, restrictions on the deductibility of loan interest may make this a less desirable alternative.

The policyowner has substantial flexibility in arranging premium payments, however. Once the
<table>
<thead>
<tr>
<th>Kind</th>
<th>General description</th>
<th>Investment vehicle</th>
<th>Investment flexibility</th>
<th>Premium flexibility</th>
<th>Face amount flexibility</th>
<th>Appropriate for . . .</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-guaranteed term</td>
<td>Lowest-cost coverage possible</td>
<td>None</td>
<td>Not applicable</td>
<td>None; increases yearly</td>
<td>None</td>
<td>Very limited situations</td>
</tr>
<tr>
<td>Yearly renewable term</td>
<td>Quality term</td>
<td>None</td>
<td>Not applicable</td>
<td>None; increases yearly</td>
<td>None</td>
<td>Person with limited cash flows and temporary needs for immediate protection</td>
</tr>
<tr>
<td>Whole life</td>
<td>Basic coverage with dividends</td>
<td>Insurer-selected long-term bonds &amp; mortgages</td>
<td>None, except by borrowing from policy to reinvest</td>
<td>None, although dividends may reduce or eliminate premium, &amp; loans are available</td>
<td>None; added coverage requires new purchase &amp; physical</td>
<td>Conservative older insureds, substandard insureds, &amp; vanishing premium plans</td>
</tr>
<tr>
<td>Universal life</td>
<td>Coverage with flexibility in premiums &amp; face amount</td>
<td>Annual interest-sensitive investments</td>
<td>None, except by withdrawal of capital</td>
<td>Maximum, ranging from enough for mortality &amp; expenses on up</td>
<td>Much; increased or decreased to suit insured's life setting, although major increases require good health</td>
<td>Younger insureds with variable needs</td>
</tr>
<tr>
<td>Variable life</td>
<td>Coverage with flexibility in investment instruments</td>
<td>Common stock; bond funds; guaranteed-interest rate funds; zero coupon bonds; money market instruments, etc.</td>
<td>Maximum, with insured directing investment activity</td>
<td>None, although loans are available</td>
<td>None; added coverage requires new purchase &amp; physical</td>
<td>Investors with life insurance needs</td>
</tr>
<tr>
<td>Universal variable life</td>
<td>Coverage with flexibility in investment instruments, premiums, &amp; face amount</td>
<td>Common stock; bond funds; guaranteed-interest rate funds; zero coupon bonds; money market instruments, etc.</td>
<td>Maximum with insured directing investment activity</td>
<td>Maximum ranging from enough for mortality &amp; expenses on up</td>
<td>Much; increased or decreased to suit insured's life setting, although major increases require good health</td>
<td>Investors with life insurance and flexibility needs</td>
</tr>
</tbody>
</table>

Source: Adapted from Baldwin Financial Systems Product Analyzer.

insurance company's initial requirements are satisfied, the mortality and expense charges may be paid directly by the policyowner, or come from the earnings on the account, or the principal in the account, or any combination of these sources. Amounts paid in excess of this requirement are allocated to increasing the investment account. If the interest earned on the account becomes sufficient to pay the entire mortality and expense charges for the year, the arrangement becomes the equivalent of term-life insurance paid for with pre-tax earnings.

Universal-life policies are appropriate for those who desire the flexibility to change the face value or the premium payment arrangement. The policyowner, however, must accept the risk that the interest on short-term investments might decline and expense might rise. The policies are suitable for people who cannot allocate the amount of premium required by a fixed-premium policy. They can state their coverage objectives and premium limitations, and have the insurance company tailor a contract for them.

Variable life
Variable-life policies allow policyowners to choose among the types of investments offered by the insur-
ance company. The policyowner may change the investment of funds within the policy and, also, the allocation of premiums going into the policy. There is, however, little flexibility permitted in the premium arrangement, and it is not possible to increase the face amount of a contract to suit changing needs.

Variable-life contracts are appropriate for the policyowner who needs insurance and is an investor, or who is someone willing to accept additional risk in order to earn a higher reward.

**Universal variable life**

These policies offer the ultimate flexibility in choice and control of investments. The policyowner may make changes in the investment of funds within the policy and in the allocation of premiums. In some instances, policyowners may even specify the amount against which the insurance company should charge the mortality and expense costs. Monthly premium payments also offer an opportunity for "dollar-cost averaging" in the investment accounts.

As in the situation with universal-life policies, policyowners may start, stop, increase or decrease premium payments and may change the face amount of a policy once mortality costs and expenses are covered. The insured will have to satisfy the insurance company's underwriting requirements, though, to increase the net amount at risk. Universal-variable life policies are adaptable to the insured's cash-flow requirements, short- and long-term investment needs, and to changes in the tax laws and economic and regulatory climates.

**Is that all there is?**

The designers of life insurance products are creative, and you are likely to come across several hybrids of the types described in the product analyzer. You might find, for example, an interest-sensitive whole-life policy. This is a fixed-premium contract, but with the investment vehicles being short-term interest-rate sensitive ones rather than long-term bonds and mortgages. Such a policy might appeal to someone who prefers money market types of investment. Single-premium whole life is a good example.

Once you have decided which insurance policy is the most suitable, you must decide which insurance company to buy it from. I suggest limiting the number of companies under consideration to those that:

- Have been in business many years and can be depended upon to make reasonable charges for mortality costs and expenses, and generate sufficient income for survival.
- Can be expected to perform well during the life of the contract, based on their past performances, and disclose what penalties the policyowner would encounter if the policy were to be surrendered.

Conditions change over time and, generally, life insurance policies do not guarantee the following year's investment returns, or mortality and expense charges. It is to the policyowner's advantage to stay with a company until death. To surrender a policy early exposes the policyowner to surrender charges and income tax liabilities. The choice of insurance company is, thus, paramount.

Having decided which type of policy is most suitable and which companies are most likely to deliver on their lifetime promises, the final step before purchasing a policy is to compare mortality costs and expenses, both current and guaranteed, investment performances and flexibility alternatives. The methods to compare these features are complicated. Basically, though, I suggest choosing control over no control, and flexibility over inflexibility, and when economically feasible, to pay for long-term life insurance needs with the pre-tax earnings on investment vehicles of choice.

When selected carefully, life insurance can be a productive and valuable asset. Personal financial planning clients need your help to ensure that their life insurance not only fits properly into their overall financial plans, but can perform well in the years ahead.

—by Ben G. Baldwin, CLU, CFP ChFC
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Northbrook, Illinois 60062
Providing Services to Older Clients

Between 1974 and 1994, the percentage of people aged 65 and over increased from 10.3 percent to 12.7 percent of the total U.S. population. By the year 2000, this age group will be about 20 percent of the population and will comprise 40–45 million people.

As the U.S. population ages and society changes, this will increasingly affect our clients' needs and concerns. A brief look at some of the facts concerning older people, today, is probably helpful if we are to provide the types of services this growing segment of the population requires.

Elder care is an issue. Since the turn of the century, the number of adults between the ages of 18 and 64 for each person over 65 has dropped from 13.5 to 4.8. According to the American Association of Retired Persons, the average length of home care for a severely dependent person over 70 is five to six years. Each year, 3 million older Americans receive some sort of long-term care assistance at home or in the home of a family member.

Nevertheless, all old people are not sick or infirm. Only 5 percent of people over 65 are receiving institutional care, only 10 percent show significant memory loss, only 20 percent feel they have a debilitating health problem, and the average age at admission to nursing homes is 80.

And older people can still be productive. Statistics show that older employees have better judgment than younger ones, have fewer avoidable absences, fewer on-the-job accidents, and lower turnover.

In the past two decades, the divorce rate among the elderly has increased three times as fast as the rate of growth of that segment of the population. Eighty percent of those who divorce, remarry, and half of the second marriages end in divorce. The number of Americans who have married three or more times increased 56 percent between 1980 and 1990 to 3.6 million.

According to Toy Trade News, the ratio of grandchildren under 10 years old per grandparent was 2.4 to 1 in 1950, 1.2 to 1 in 1990, and will probably be 1 to 1 in the year 2000.

There are some impressive financial statistics. People over 50 years old own 77 percent of all financial assets and an estimated $700 billion in home equities. They own 80 percent of all deposits in savings institutions and account for 40 percent of all consumer demand.

In addition, people over 65 have (on average) more discretionary income than any other age group. They pay a smaller percentage of income in taxes because of exclusion of part of Social Security benefits and some pensions from taxable income, higher standard deduction, gain exclusion on home sale, and breaks on property taxes.

How to reach this market

A great way to become known to this audience is to write articles for the publications of local retirement communities and senior citizens groups. There are now more publications geared to the mature reader than ever before. Topics of interest include travel, health, finance, dining, entertainment, and profiles of people in the same age group.

For marketing purposes, try stratifying the older client, as follows:

**Ages 50 to 64 (middle adulthood)**

- Children grown and educated.
- Mortgage paid, or nearly so.
- Income peaking.
- Forty-one percent still working.

This age group is concerned about health issues, the financial and leisure aspects of retirement, and the care of aging parents.

**Ages 65 to 79 (late adulthood)**

- Still active and independent.
- Using substantially more health care services.
- Beginning to rely on family and friends for assistance with the tasks of daily living.
- Seeing increasing numbers of friends and relatives die.
- Ten percent still working.

This age group is concerned about estate planning, cost of long-term care, retirement, and lifetime housing.

**Age 80 and over (old age)**

- Two-thirds are women.
- Fewer than 2 percent still working.
- Losing physical abilities.

This age group is concerned about financial management and day-to-day maintenance activities (cooking, cleaning, shopping, and driving).

We need to consider the psychology of older people when marketing and delivering services to this group.

Studies show, for example, that consumers over the age of 50 tend to show a higher concern for quality over cost than consumers from younger age groups. Also, older clients have most of the things they need. They are generally more concerned about
enjoyment than acquisition and believe they are entitled to a certain amount of self-indulgence.

Older clients are concerned about their comfort, personal safety, and financial security, and access is often as important to them as the actual product they purchase.

Ways to deal with older clients’ anxiety
Always meet with older clients in a comfortable environment. Make sure your office is accessible, comfortable, and attractive, that it is secure, and that there are convenient and safe parking facilities. Visit clients in their homes if this is preferable.

Take the time to explain services and products in detail. Don’t fall into jargon or use overly technical terms. Follow up each meeting with a letter explaining concepts discussed and establish a system to remind older clients of action to be taken. Offer to accompany them to meetings with their other professional advisors and/or to review recommendations they receive.

Older clients seek security through products and services which directly protect them or which simply make them feel more secure. Some examples of this can be seen in the growth of HMOs, sales of “panic buttons,” and other monitoring devices.

And keep in mind that older clients may not be comfortable with new technologies or concepts, and will be more conservative in tax and financial planning matters. New or aggressive ideas will need to be explained carefully and may still be rejected.

How to build this practice area
Our firm began developing this area by surveying current clients regarding our conducting estate planning reviews for them and their parents. We sent letters to clients asking them to send us their wills and other documents so that we could offer recommendations.

We network extensively with other professionals, such as attorneys, insurance representatives, trust officers, bankers, brokers, and financial planners, and give presentations to target groups, particularly corporate pre-retirement counseling groups. We also write articles for targeted publications, such as those previously mentioned. They are always looking for material.

Counsel your business clients to ride this wave. Sellers of products and services for children should consider marketing to grandparents, for example. According to some statistics, grandparents now account for 25 percent of all the money spent on

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**Areas Where We Need To Be Informed**

**Dealing with social security**
- What will your client’s benefit be?
- How can the client maximize the benefit (adjustments in income near retirement, when to apply for benefits)?
- How do you know 1) when someone is retired? 2) when someone is disabled? and 3) which wife receives the widow’s benefit?

**Dealing with Medicare and Medicaid**
- What are the rules regarding intentional impoverishment?
- When are home equities a problem in applying for Medicare and Medicaid?
- Where is specialized help available?

**What do you know about**
- Obtaining long-term care insurance (what it costs and what the age and health restrictions are)?
- Long-term disability insurance?
- Medi-gap insurance?
- Reverse mortgages?
- Pre-death life insurance payouts?
- Non-qualified retirement planning?

**We need to think about**
- Succession planning. (Financial and tax sense may be rendered impractical by family politics.)
- Estate planning. (This involves total family tax and estate planning, and working with or through the younger generation.)
- The tax implications of unconventional living arrangements, such as house sharing, care credits, common law marriage, ante-nuptial contracts, and separate property agreements.
- Living trusts. (Do they do what you think they do? Do you know the grantor trust rules?)
- Charitable remainder trusts.
- Gifts of future interests.
- Family limited partnerships and limited liability companies.
- Trade-offs between long-term capital gains taxes and estate taxes.
- Tax savings through discounts for partial interests and avoidance of future appreciation.
- Excludable gifts. (For example, the older generation is being called upon to subsidize grandchildren’s education.)
Toys in the U.S.

Steer business clients toward home delivery and packaged services to capitalize on the trend, and alert them to the increasing demand for home care assistance and life-care facilities, and transportation and entertainment services from this growing segment of the population. Keep in mind that the “baby boom” generation (those born in 1946 to 1964) includes 76 million people. The oldest “boomer” is 50, this year.

—by W. Britt Smith, CPA, Smith & Just, P.S., 401 Second Avenue South, No. 301, Seattle, Washington 98104, tel. (206) 624-8075, FAX (206) 624-1353
The CPA's Vital Role in Estate Planning

All too often, CPAs do not participate in clients' estate planning through failure to educate clients as to the value of their input. The absence of such participation leaves the process woefully incomplete, however, and there are compelling reasons why clients and their estate planning attorneys should seek the continuing help and supervision of CPAs in this process. Following are some of these reasons and suggestions as to the form such participation might take.

Continuing relationships

Individuals contact attorneys infrequently during their lifetimes, mostly for discrete, finite projects. Accountants, on the other hand, see their clients annually at a minimum, often at least quarterly, and develop ongoing personal relationships.

The attorney must seek information essential to the selection of the appropriate estate planning techniques for a particular client. This information would include the client's present and prospective net worth, asset mix, present and future cash flow needs, and family concerns (both financial and non-financial). Ordinarily, the CPA is the only party who maintains this information for the client. In addition, clients are comfortable and familiar with the quantitative tutoring they receive from their accountants, making the subject of sound estate and gift planning easily broached.

Accountants have regular access to clients' personal information and can determine whether they are complying with estate plans already in force. Clients tend not to consult attorneys after the initial preparation of estate planning documents, until a death occurs, and the attorneys cannot be so vigilant in making sure clients are not taking actions inconsistent with the estate plans. Nowhere does such a deficiency have more adverse results than in probate avoidance.

In many states, probate may be avoided upon death by means of a revocable living trust, but only if the trustees formally transfer title to their wealth, prior to death, from their individual names to themselves as the trustees. Because CPAs regularly see clients' property tax statements for newly acquired real property and Forms 1099 for securities and bank accounts, they are better able than attorneys to determine (from the title listed on such forms) whether clients who have current revocable living trusts have taken title to recently acquired property and/or accounts in the trust or, instead, in their individual names.

Practice development and continuity

It goes without saying that gift and estate planning considerations are relatively untapped areas for CPAs, since virtually every client can be helped by an introduction to such planning. In addition, it makes sense for the CPA to understand a client's basic estate plan, because after the client's death, the CPA's participation in the division and administration of assets could provide a smooth transition to representation of a surviving spouse and, later, the next generation.

This phenomenon is prominent in the passage of ownership in a family business down to the children of the original owners. In fact, the level of a CPA's participation in the transition may dictate whether he or she is asked to continue in representing the enterprise.

Following are some ways CPAs can provide substantial services to clients in the areas of gift and estate planning.

Gift-giving program. Accountants can determine the estate and gift tax savings, and the drainage of assets otherwise available for clients' future needs, which can result from gifting options. In addition, CPAs are best qualified to evaluate basis and income-shifting considerations in selecting the assets for a gift program.

Trust administration. Many estate planning techniques utilize irrevocable trusts. These vehicles require a constant vigil, because clients tend to neglect the formalistic requirements of such separate legal, taxable entities. Segregation of assets and records, protecting trust assets from the client/trustor's access, and notifying beneficiaries of trust assets are just some of the requirements often neglected by an incompetent trustee. The CPA, who should prepare accountings and tax returns for the trust, has the long-term relationship with the client and the client's family, as well as a strong business and quantitative background, and is often the logical choice to serve as trustee of such a trust.

Revocable living trusts may not require the CPA as initial trustee. The accountant may, however, be an appropriate successor trustee, especially under circumstances where clients are living but incapable of handling the totality of their wealth. As stated above, CPAs can continue to monitor whether effec-
tive probate avoidance techniques are being administered correctly by clients.

**Life insurance needs.** CPAs are aware of the lifestyle and savings practices of their clients, and may be uniquely suited to understand their clients' life insurance needs, considering (1) the cash-flow drop which a death will bring as a result of lost income of a deceased spouse and (2) the liquidity needs to pay estate tax. Often, a business can only survive the death of a major shareholder/employee with careful planning. The CPA, who regularly observes and advises the principals of a family business, can evaluate the client's needs for buy–sell or redemption arrangements (another place where life insurance may be appropriate) and participate in the creation of business continuation contingency plans.

**Post-death involvement.** After a client's death, the involvement of the CPA can be extremely important to the effectiveness of the estate plan. The estate tax returns of a decedent require fair market value information for all of the decedent's assets, and often the accountant has the greatest access to this information. Further, many estate plans require allocation of assets among several trusts which have different distribution schemes and different future estate tax characteristics. The CPA's understanding of the client's asset mix, as well as the appreciation potential of particular assets, can be invaluable in this allocation/selection process.

In addition, in many states, the probate process, if unavoidable, may be an involved proceeding, often requiring court-approved accountings for estates, and sometimes trusts. The obvious choice for the preparation of such accountings is the family CPA.

**How to increase your estate planning involvement**

In most areas, the estate planning community comprises mainly attorneys, life insurance agents, and financial planners. An excellent way to meet these professionals and create a network for information sharing and referrals is to invite them for speaking engagements at local CPA society meetings. You might also inquire about the current status of clients' estate planning and the identity of the professionals working with them. You can then contact these individuals and offer your participation.

If you wish to increase your familiarity with various estate planning concepts and techniques, try attending the group discussions organized by various estate planning professionals. Often, the "war stories" generated at these meetings can provide some real practical guidance.

**Conclusion**

CPAs are uniquely suited to participate in clients' estate planning and administration, and can be extremely valuable in minimizing the wealth-transfer tax burden of future generations. Further, you will find your practice can be greatly enhanced by the added services which such participation entails.

— by **Reeve E. Chudd, Esq., CPA**, **Ervin, Cohen & Jessup, Ninth Floor, 9401 Wilshire Boulevard, Beverly Hills, California 90211-2974, tel. (310) 273-6333**
HOW TO BUILD AN ESTATE PLANNING PRACTICE

CPAs are uniquely qualified to be members of their clients’ estate planning teams. CPAs have access to clients’ financial information, know clients’ concerns, and, as the continuing adviser, have the opportunity to discuss estate planning needs with clients. Yet frequently, CPAs are not members of the team.

Perhaps one of the reasons is that CPAs neglect to make others aware of their knowledge of estate planning and desire to participate, and have not taken the lead in initiating discussion of the topic with clients. One way to stimulate clients’ interest in estate planning is to ask questions, such as those in the exhibit opposite. The chances are that these questions will pique clients’ interest in moving forward, and you can start developing this area of practice.

Start with education
Educating both yourself and clients is a good way to begin the process of building an estate planning practice. Start by becoming thoroughly familiar with the methods available to avoid probate and reduce taxes, and tell clients about these benefits. Explain the options available and the pros and cons of each.

You can talk about the advantages and disadvantages of joint ownership, ways to reduce taxes, and the benefits of a trust. You can tell clients about the different kinds of trust that exist, such as revocable living trusts and testamentary trusts, and do this in plain English, using terminology clients can understand.

For example, you can explain that a revocable living trust is an agreement between two people, which can be revoked at any time. You can say how it works, and show how it can provide for the grantor, spouse, children, and charities. You could mention that a revocable trust can provide for incapacity without the involvement of the probate court, and also protect the client’s privacy.

Role of the CPA in estate planning
The CPA should be the key advisor in lifetime estate planning. You can best assist the other members of the team with the design of the plan by gathering, analyzing, and reviewing pertinent data, and providing any other needed input based on your knowledge of the client. You can also evaluate alternative plans.

You can help implement the plan by providing for the transfer of assets to the trust. You can also assure that the plan will continue to work as intended through ongoing monitoring and reviewing. Again, as the ongoing adviser, you are in a good position to call the client’s attention to needed plan changes, if circumstances warrant it.

Finally, on the death of the client and the client’s spouse, you can prepare whatever gift, estate, and other tax returns are needed. In addition, you can develop allocation schedules to show the after-tax amounts to be received by various individuals.

Often, when a client dies, the attorney takes over and the accountant is not involved in the post-mortem planning and doesn’t hear from the family again. This is usually because the CPA was not involved in the estate planning process during the client’s lifetime. This need not be the situation.

Estate planning is a relatively untapped market for CPAs because virtually every client can be helped by an introduction to such planning. Yet, few CPAs participate in the process.

Ways to increase your estate planning involvement
Probably the best way to build an estate planning practice is to establish a reputation in the estate planning community in your area. You can do this by becoming known to other participants—accountants, estate planning attorneys, trust officers, financial planners, and life insurance agents—and letting them know you wish to participate.

To reiterate, educate yourself and clients about

Questions to Ask Clients

□ Do you have a will?
□ Do you have a trust?
□ Is your trust funded?
□ Do you understand how your plan works?
□ Do you have a business succession plan?
□ Do you have jointly owned property? Why?
□ Do you have a plan that avoids probate?
□ Do you have a plan that reduces taxes?
□ Does your successor trustee know your business succession plan?
estate planning; ask the right questions, such as those in the exhibit; initiate estate planning discussions; and suggest clients start the process. You will find that your participation in estate planning may not only provide a valued service to the beneficiaries, but significantly enhance your own practice as well.

—by Stanley M. Burnstein, J.D., Burnstein, Beck & Thomas, P.C., 100 Plaza Center Building, 800 West 47th Street, Kansas City, Missouri 64112-1243, tel. (816) 561-0110
REPEAL OF ESTATE FREEZE RULES CREATES NEW PLANNING OPPORTUNITIES

Although the Omnibus Budget Reconciliation Act of 1990 will increase taxes for most individuals beginning in 1991, the new law removes a major obstacle to estate planning that may provide significant tax benefit to owners of family-held businesses. The controversial estate-freeze rules that were enacted in 1987 have been repealed and replaced with a set of modified transfer tax valuation rules.

The estate freeze rules were originally adopted to prevent taxpayers from making gifts that removed future appreciation from their estates without giving up control over their assets. The rules were severely criticized, however, because they were overly broad and impeded the transfer of family businesses. Unlike the former estate freeze rules, which taxed future appreciation by including previously transferred property in the transferor's gross estate, the new provisions establish special valuation rules that attempt to value the transfer more accurately at the time of the transfer, rather than at the time of death.

A transfer is valued by subtracting any retained or income interest from the total value of the property before the transfer. Under some circumstances, the value of a retained or income interest is deemed to be zero (regardless of its true value). Generally, the special rules apply when a senior family member transfers an interest in a corporation, partnership, or trust to a family member while keeping a preferred interest in the entity transferred.

Valuation of retained interests
A retained liquidation, put, call, or conversion right of a corporation or partnership interest is valued at zero, unless the right must be exercised at a specific time and amount. A retained distribution right, other than a periodic payment determined at a fixed rate, is valued at zero if the transferor and family members own at least 50 percent (by vote or value) of the stock of the corporation, or own at least 50 percent of the capital or profits interest in a partnership or are general partners. An irrevocable election can be made to treat a retained corporate or partnership distribution right as if it were payable in amounts and at the times specified in the election.

Example: Father owns 25 shares of the 100 outstanding shares of noncumulative preferred stock in FamilyCo. Grandfather owns the remaining 75 shares of the noncumulative preferred. Father also owns all of the 100 outstanding shares of the common stock in FamilyCo. Father gives 25 shares of the common stock to his son. The non-cumulative preferred stock of both Father and Grandfather are valued at zero for purposes of determining the amount of the gift by Father to his son. As a result, the amount of the gift is the same amount as if Father had given 25 shares of common to his son in a corporation that had only 100 shares of common stock outstanding.

If cumulative distribution rights are not paid, they will be considered a taxable gift or included in the transferor's gross estate. Although a taxable gift will not occur until after the expiration of a 4-year grace period, any taxable gift or estate inclusion will include interest. The gift or increase in the gross estate generally is limited to the benefit adhering to the donee for failing to pay the dividends.

Planning opportunity. The new rules sanction estate freezes provided the senior family members are willing to pay any applicable gift tax on the interest transferred at the time of the transfer. This creates an extremely valuable planning opportunity for family owned businesses that are not S corporations. With proper planning, the senior family members can retain an income interest in, and nearly complete control over, the family business and still exclude its date of death value from their taxable estates.

Transfers in trust
When transfers (other than transfers of a personal residence) are made in trust, the retained or income interest is valued at zero unless the interest is a right to receive fixed payments, or a fixed percentage of the trust's property, payable at least annually. The right to payments is valued at the discount rate currently used to value charitable transfers. The value of the gift is determined by subtracting the present value of the $5,000 annuity from the total value of the property. This calculation is made using special IRS present value tables.

Example: Mother transfers $200,000 in trust while she retains a twenty-year term interest in the trust, remainder to her children. Unless Mother retains a right to receive fixed payments, or a fixed percentage of the trust's property, payable at least annually, the gift to the children is valued at $200,000 (that is, the retained interest is valued at zero). If Mother retains the right to receive $5,000 per year for twenty years, the value of the gift is determined by subtracting the present value of the $5,000 annuity from the total value of the property.
Joint purchases
A joint purchase of property (other than a personal residence) is treated as an acquisition of the entire property by the holder of the term interest, followed by a transfer of the remainder interest. As a result, the purchaser of the term interest is treated as making a gift of the entire property, less the amount of any consideration paid by the purchaser of the remainder interest.

Planning opportunity. This provision reduces, but may not eliminate, the tax benefits of using grantor retained interest trusts (GRITs) or split-interest purchases to acquire certain property. Although the new provision may impose high initial transfer tax cost, to the extent the asset appreciates or produces more income than required to be paid to the income beneficiary, it may be possible to shift value to junior family members tax free if the property appreciates at a rate in excess of the IRS table amounts.

Buy-sell agreements
The value of property is generally determined without regard to any option, agreement, or other right to acquire or use the property at less than fair market value. In addition, any restriction on the right to sell or use such property other than those which are bona fide business arrangements whose terms are comparable to similar arrangements entered into in arm’s length transactions will not be considered. These requirements apply to any restriction implicit in the capital structure of the partnership or contained in a partnership or shareholder’s agreement, articles of incorporation, or corporate bylaws.

Planning opportunity. The new rules with respect to buy-sell agreements generally do not apply to agreements entered into before October 9, 1990, provided they have not been substantially modified after October 8, 1990. As a result, care should be exercised to ensure that the grandfather status of unaffected agreements is preserved.

Lapsing restrictions
The value of property is determined without regard to any restrictions, other than a restriction that by its terms will never lapse. Any right held by the decedent with respect to property includable in the gross estate that effectively lapses on the death of the decedent will, in valuing the property in the estate, be deemed exercisable by the estate. In addition, the lapse of a voting or liquidation right in a family-controlled corporation or partnership results in a transfer by gift or an inclusion in the gross estate.

Increased enforcement
To aid the Internal Revenue Service in enforcing these new valuation rules, the gift tax statute of limitations will not expire on an undisclosed or inadequately disclosed transfer, regardless of whether a gift tax return was filed for other transfers in the year in which transfer occurred.

Effective date
The rules are generally effective for transfers and agreements entered into or substantially modified after October 8, 1990. With respect to transfer before October 9, 1990, any failure to pay dividends or exercise a conversion or other right is not a subsequent transfer. The rules on expiration of the statute of limitation apply to gifts made after October 8, 1990.

Conclusion
The repeal of the former estate freeze rules and their replacement with new valuation rules creates special planning opportunities for owners of closely
held businesses. The primary benefit of the new rules is that estate freezes can once again be used provided the family members are willing to pay some additional gift tax or utilize a portion of their unified transfer tax credit at the time of the transfer. The new rules are not as broad as the old estate freeze rules and provide a degree of finality with respect to the valuation of transfers between family members not obtainable under old rules. 

—by William J. Goldberg, CPA/APFS, KPMG Peat Marwick, 3000 Republic Bank Center, PO. Box 4545, Houston, Texas 77210 and Rick J. Taylor, CPA, KPMG Peat Marwick, 2001 M Street N.W., Washington, DC 20036
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PREPARING FOR THE TAX SEASON

Now is a good time to take a few steps that will eliminate bottlenecks and ensure a smooth running tax season. Here are a few reminders.

☐ Schedule interviews—Sending clients an appointment letter in November or December will help.

☐ Get the data early—Enclose an easily understood checklist or questionnaire in same sequence as tax return if possible.

☐ Additional data—Ask client to contact your office beforehand if material changes in operations are likely to have caused new tax problems requiring more information.

☐ Other client aids—A tax calendar listing various due dates, type of tax, information required, mailing address, etc., could reduce phone calls and penalties for late filing. The previous year's return can be useful as a guide.

☐ Review processing procedures—Go over procedures with staff, make changes where necessary. Pass out annual tax handbooks and other instructional material.

☐ Set up an assignment system—Review previous year’s returns, see who prepared and reviewed them. Familiarity will speed things up, so assign same people if possible. Make one person responsible for controlling assignments.

☐ Control flow of returns—Keep returns that are to be prepared separate from those that are to be reviewed. Back-up data for those being processed at a computer center should be kept elsewhere. Staff should sign for all returns that they start work on, then any given one can be quickly found. It also helps scheduling of backlog.

☐ Client files—Check beforehand that each file contains all necessary forms, instructions and pertinent data. A blank checklist to record information for next year is a good idea too.

☐ Don’t estimate—Work up actual data instead of using estimates. The last months’ missing data can be added in.

☐ Determine needs—If additional personnel will be required, set hiring plans in motion. Check supplies, review tax form requirements and place orders. Check office equipment for adequacy and condition. Have equipment serviced, particularly copying machines.
TAX SEASON WITHOUT TEARS

Ask any firm the reason for tax-season tears and you will get at least two dozen answers about client coordination problems, staff turnover, bunching of work load, slow turnaround time, competition from other work, and so on. In reality, most of the problems are caused by lack of preparation. During the most hectic part of the 1987 tax season, for example, it will be only too easy to forget that it all began in January 1986. Preparation should be year-round.

Clients should receive regular reminders of quarterly tax payments coming due. It doesn't matter whether these are oral or written reminders; either one will improve rapport with clients. If clients tend to lose vouchers or forget to make payments, take the time to phone and remind them. And don’t let them fall into penalty situations because of underpayment of estimated taxes.

When clients initiate tax planning via a telephone call, take down notes as well as listening carefully. Write down explanations as well as facts. Confirm with a letter where appropriate, particularly if any uncertainty exists.

Sometimes the call might hint at potential trouble or indicate that an adjustment is needed in quarterly taxes. Other calls might suggest the possibility of rendering the client more services.

An annual tax planning meeting may not be necessary for every client, but for those you really want to retain, it is essential. Always document your invitation to such a meeting with a letter. This strengthens your position should clients decline or ignore the invitation, have difficulty raising money on short notice, miss payments, and face penalties.

For “big hitters” or clients with “windfall” income, the optimal time for meetings is from June 1 to September 15. Schedule meetings with clients who have routine tax returns for after Thanksgiving. Such scheduling can help avoid major upheavals in CPA-client relationships. It also means that you contact important clients on a regular basis.

Sending clients tax organizers or questionnaires lets them know you are thinking about them and promotes the firm at the same time. It is also a reminder to procrastinating clients and can offer some protection against the receipt of inaccurate or incomplete information.

If your clients’ cultural patterns permit it, there are advantages to having both husband and wife attend the tax-planning meeting. Individual tax returns have a lot of sensitive information on them, and the attendance of both will reduce the potential for interspousal communication problems. Also, such a meeting will build rapport with a family, instead of just one spouse. This will ease discussion of other services you can offer, such as estate planning. It will also give you a pipeline to whichever spouse is most diligent in gathering missing information and enable you to call one without upsetting the other.

Having both spouses attend the meeting will also help you spot emotional issues that affect the return—issues such as the desire to take someone’s mother as a dependent. It will also ensure that the spouse who will later pay your bill will always be present.

Improperly handled, these meetings could sow the seeds of a disaster. Done with tact and sensitivity on the part of the CPA, however, a face-to-face meeting with a client is the best tool available for generating higher fees, more business, and better rapport.

Another idea is to give clients a copy of their tax work sheets or summaries. This not only makes them feel more secure, but lets them know what information they have given you. Also, if you call them later to ask a question, you can refer to a specific item on a particular page.

The importance of follow-up

If you are really serious about avoiding tax-season tears, always send a letter to a client summarizing the information still needed soon after the interview. The items you still need are freshest on your mind at that time. The letter will help eliminate or reduce those inevitable and time-consuming phone calls (and telephone tag) that occur when a busy CPA is trying to reach a busy client. The effective use of a dictating machine can reduce the time needed for preparing such a letter from one or two hours to 15 or 20 minutes. (Dictating is said to be up to seven times faster than writing.)

Another suggestion is to do tax research on large or sensitive items right away, even if you can’t deliver the completed return for several weeks. The reasons are that clients often worry about such items until they hear from you, and your relationship may be at stake.

If it is becoming clear that you will have to give the client some bad news about taxes owed, immediately assess the best way to handle the situation. If you are responsible for the client, you—not a subordinate or go-between—should be the person to deliver such news.
Even routine letters and phone calls should be from someone who attended the initial client meeting. Ideally, only one person will write letters or make phone calls to a given client during the year. Phone calls should be kept to a minimum, and each should be warranted by the relative importance of at least one of the items to be discussed. If you have ten or more questions, a letter is probably the more appropriate means of initial contact.

Preparation of the return
Who should fill out the forms? Should it be you, the staff (professional or paraprofessional), partly you and partly the staff, or even the client? Which system is best—hand preparation, service bureaus, or in-house computer?

The answers, of course, depend on many things, such as the size and location of your firm, the types of clients you have, the volume and complexity of returns, your fee structure, and so on.

Regarding systems, hand preparation has the advantage of involving fewer people and offers the quickest turnaround time from end of review to delivery. Also, the preparers become more knowledgeable and on-the-spot changes are facilitated. Neatness and mathematical accuracy can be a problem, though, and calculating amounts or redoing the return may be slow.

High volume is possible with an outside service agency, and they also offer the advantages of neatness, accuracy, proformas, organizers, client letters, and so on. Redos can be a nightmare, however; the cost may be high and the turnaround time slow.

In-house computers offer self-reliance, quick reruns, and possible cost savings over outside service bureaus. The necessity of batch processing, the extensive involvement of support staff, and the possibility that software may arrive late are potential disadvantages.

In our firm, we have found that the person best suited to review the bulk of the return is the person most familiar with the client's situation because the typical tax return error results from inaccurate facts, not inaccurate application of the tax law. Having the return also looked at by a tax specialist is a good idea, particularly if it is complicated.

We try to avoid giving clients potentially distressing news over the phone. If it is unavoidable, we take a leaf out of the medical profession's book and break the news gently, after first setting the stage. If a large amount of tax is owed, it is better to invite clients (both spouses) to a meeting to go over each item line by line, saving the tax due amount until last. Keep in mind, however, that if such a meeting occurs just prior to April 15, the client can always say, "You should have told me sooner," and your relationship or part of your fee may be at stake.

—by Steven C. Gabrielson, CPA
Salt Lake City, Utah
TAX SEASON..."WE LOVE IT!"

We at Serotta, Maddocks and Devanny are tired of hearing CPAs forever complain about the forthcoming tax season. We look forward to tax season for the following reasons:

☐ It is our single greatest revenue producer.
☐ It is the best climate in which to obtain new clients.
☐ Our earning potential is more per hour than for any other service.
☐ Our firm is able to demonstrate its skills.
☐ Our staff increases its skills and proves its value to the firm at a greater than normal speed.
☐ We make it fun!

Tax season is the time we put all our management skills to work. Good management starts with good planning. All forms, both government and printed aids, are ready by January 1 of each year. Staff training is intensified beginning December 1, with the emphasis on interview, preparation and technique. Secretarial training is also very important and includes proper appointment scheduling, and the processing and delivering of tax returns to those who just drop by to pick up the completed work.

We use a firm budget for both dollar and number amounts for our anticipated tax season. This is broken down by month with heavy emphasis on beating the early months' figures. Why? Well, if you produce 10 percent more returns from January 1 through March 15, then you have 10 percent fewer returns to do from March 16 through April 15.

Each staff person has a production "guideline." However, this is not a punishment/reward budget because the firm is the key element. We have a friendly competition each month as we play a game to exceed our pre-set guidelines. Our staff works overtime but at variable hours. Some people work early in the mornings, some work late in the evenings, some work on Saturdays and some work on Sundays. All tax work that can be completed must be completed within one week. This allows the more efficient preparers to have more leisure time if they so wish.

The most important aspect is client training. We mentioned interview techniques before, but enough emphasis cannot be placed on client training. The use of tax organizers and the preparation of data in an easy-to-read format are essential. If 90 percent of the clients are organized, the remaining 10 percent can be easily managed. Clients must be trained to come in early for tax preparation. Sometimes you must challenge them, harass them or tease them, but always try to get them in early! Because partnerships and fiduciaries hold up other tax returns, we try to complete these as early as possible.

Toward the middle of March we encourage clients with incomplete work (usually waiting for a K-1) to still come in. Even at that time we will begin their work, which is usually missing only one item. Therefore, a last minute crunch is eliminated.

Over 1,100 individual, partnership, fiduciary and corporate tax returns were done this year in our office. Disappointingly, we have 24 extensions, which to us seems very high. We did two returns on April 16 and four reruns were processed that day because of uncontrollable events such as IRA changes. Yet, we still managed to close our doors at 2:45 P.M. when the last return was picked up. Our budgets, which already reflected a planned level of firm growth, were exceeded by almost 10 percent in both number and dollar amounts.

Yes, we are thankful for tax season because now that it is over, the dull, tedious work we did not like before seems like fun.

—by Abram J. Serotta, CPA
Augusta, Georgia
COMPUTER CONTROL OF TAX RETURNS AND STAFF ASSIGNMENTS

May 1979

Monitoring the status of tax return preparation and the related assignment of personnel can be one of the most time-consuming functions in the administration of a public accounting practice. However, because of the need for time-budget controls, the embarrassment that can result from inadequate control of returns and the potential for firm liability, it is essential that the job be properly done.

In an attempt to better manage the flow of returns and assign personnel more effectively, particularly during the heavy filing season, our firm developed a procedure that uses an in-house computer (a Burroughs B-700). Besides the control of income tax returns, this program is adaptable for use with other returns such as personal property and payroll tax, and to the control of audit and management service engagements.

The concept is relatively simple, there being only one basic format (the master list) that is utilized to obtain other reports. The data needed to develop these reports are:

- The master file which contains the following information:
  1. Type of work identification.
  2. The date the year ends.
  3. Client's name.
  4. Client's number.
  5. Partner-in-charge's number.
  6. The degree of difficulty in preparing the return.

- The date the data are received from the client.

The date the staff person completes the return and submits it for review.

☐ The date the return is mailed to the client.

A brief description of the column headings in the master list format (see exhibit below) follows:

1. Client's name (in alphabetical order).
2. Client's number.
3. Partner-in-charge's number. (The first digit of the number indicates the degree of difficulty, from 1-9, in preparing the return.)
4. Name of the staff person who prepared the return last year.
5. Date the return was mailed last year.
6. Staff time required to prepare the return last year.
7. Budgeted time to prepare the return this year.
8. Work order number.
9. Name of the staff person assigned to prepare the return this year.
10. Staff person's number.
11. Date the data were received in the office.
12. Target date for the return to be completed and made available to the client.
13. Date the return was completed by the staff person and submitted for review.
14. Date the return was mailed or delivered to the client.
15. Time needed to complete the return.

Columns 1 through 3 are part of the basic master file. Columns 4 and 5 are updated automatically after the year-end, and the remaining columns are updated as the return is processed.

In our system, we can obtain the following computer printouts for various types of returns and different year endings. Every report gives the status of each return and shows the total hours

<table>
<thead>
<tr>
<th>Master Client List</th>
</tr>
</thead>
<tbody>
<tr>
<td>1040 For Year Ended</td>
</tr>
<tr>
<td>Date...................</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>Client</td>
</tr>
<tr>
<td>Name No.</td>
</tr>
<tr>
<td>----------</td>
</tr>
</tbody>
</table>
worked in the prior year and the number of hours budgeted for the current year.

☐ *The master list* is useful in assigning personnel. The person in charge of assignments manually indicates receipt of the information from the client, sets the target date and assigns the return to a staff person. The master list can be updated as needed and used as a permanent record of all returns processed for a particular year-end.

☐ *The partner/client contact* is an alphabetical report of the returns for which each partner is responsible. It provides an update of current year budgeted time and can be used as a checklist by the partner prior to year-end.

☐ *Work-in-process* reveals the progress of every return in the office.

☐ *Staff work-in-process* shows which returns have yet to be completed by each staff person. It can be updated as often as needed.

☐ *Work-in-process over x days old* indicates all returns that have been in the office a certain number of days and yet have to be reviewed. This list identifies returns that might need special attention.

We have found these reports to be most useful in providing timely completion of tax returns and more efficient service in general to our clients.

*–by Val D. Kleppinger, CPA*  
*Lincoln, Nebraska*
ATTACKING 1040S

If yours is a growing local firm and you are hiring two or three entry-level staff accountants each year, it means that, as tax season rolls around, you will have two or three people on your staff who have never been through one before. Not only that, there will be several other staff members with only one or two tax seasons under their belts, and the likelihood is that partners will be inundated with questions about tax return preparation. The fact is that new people can consume time and cost the firm money.

Atkinson & Co., of Albuquerque, New Mexico, is a growing local firm that experienced this situation. It realized that new people need training and guidance, and that even people with one or two years' experience need reminding about ways to save time and prepare tax returns efficiently. To help staff, Paul Vosburgh, CPA, a supervisor with the firm, outlined the suggestions shown below for 1040 preparation.

The idea is to get staff members to think before they ask questions. The firm believes that 1040s should be attacked. But before they can attack a

1040 PREPARATION SUGGESTIONS

1. Review the time budget.
2. Be a detective!
3. Review prior years' returns for
   General understanding
   Carryovers
   Estimated payments
   Refunds
4. Organize current year information:
   Summarize
   Cross-reference
5. Create a question list of items missing:
   Compare with last year
   Use common sense
   Look for tax planning opportunities
   Don't assume that the client has given us everything!
6. Understand the tax treatment and the forms treatment of all information going on the return. Refer to
   PACKAGE X
   MASTER TAX GUIDE
   PREPARER'S MANUALS
   OFFICE TAX SERVICE
   Don't guess!
7. Understand the computer input or manual forms:
   Read the forms
   Read the instruction manual
   Don't guess!
8. Discuss unresolved issues and the question list with the return supervisor.
9. Leave work paper documentation on all issues in the file.
10. Fill in the input form or manual form.
11. Make sure it's right the first time!
    Don't rely on the reviewer to catch errors.
return, staff members must look at it, determine the treatment of all information going on it, refer to the guides and manuals, read the instructions and look at the examples. They should try to learn something from the information available and keep the time that partners are involved to a minimum. Staying within a reasonable budget is also essential if the service is to be profitable. Last tax season, Atkinson & Co. profitably prepared 850 returns this way.
SOME TAX SEASON PROCEDURES

In years past, we experienced problems in three specific areas during tax season. The solutions we found may be of help and interest to other tax preparers as the busiest time of the year approaches.

The first area involves electronic filing. If you have already started to use this method, you know that there is a basic flaw in the system. A return must be filed and accepted electronically before Form 8453, the signature form, can be filed.

In the 1991 tax season, Form 8453 had to be filed within one week. Beginning in January 1992, the form must be filed by the next working day.

To accomplish this, the preparer must first complete the forms to compute the tax and refund. Then he or she must file the return electronically and wait for the Internal Revenue Service to acknowledge acceptance. When this is received, the preparer must have the client sign Form 8453 so that it can be filed.

This is not so simple if your client contact is limited to one interview. This is how we overcome the problem.

We estimate the amount of any refund during the interview, pencil the data on a Form 8453, and have the client sign it. When we are sure our calculations are correct, this information and the declaration control number (DCN) provided by the IRS is typed on the signed form prior to filing. We then process the returns and prepare the instruction letter for the client indicating that the return has been filed. If there is any problem with the electronic filing process, we destroy the form the client signed. This method worked well for us last year.

Billing for tax work created another problem in the past, too. There are four tax preparers in our firm and we had trouble ensuring uniform billing procedures. Our solution is to publish a fee schedule each year for every tax form we prepare. All our clients receive a copy of this schedule. We then program our in-house tax return preparation package to generate an invoice based on this fee schedule with each return. The resulting amount, which includes a standard computer charge, becomes the base fee. Inevitably, some invoices show an unreasonably high fee that requires an adjustment. Our policy in such instances is to use our hourly rate as the benchmark, but never to write down a fee below a predetermined minimum amount.

In practical terms, the client is billed either according to the listed price or according to the time we spent preparing the return, whichever is less. It is an easy procedure to explain, both to new clients and staff. Using our time and billing software, we can sort billing reports by client and preparer to see if we are meeting our goal of billing out 100 percent of our chargeable time. These reports are distributed to each preparer periodically during tax season.

We struggled for years to find an efficient way to organize clients' tax files. Our solution is to maintain them in three groups. "TXC" files include the most recent tax returns, work papers, and carry-forward information. These files are centrally located and readily available to the preparers. Prior year returns for current clients comprise the second group, the "TXA" archived files. The "TXD" group holds the files of former clients.

Our goal is to bill 100 percent of our chargeable time.

When we are processing a current return, the prior year's records are stapled together and transferred to the TXA area where they are readily available. During off-season, staff gathers the files of probable nonreturning clients for transfer to the TXD boxes. There they are kept according to a record retention schedule.

If any readers have different or better solutions to the problems in the areas I have described, I would be pleased to hear about them.

SEASONAL SOLUTIONS FOR SEASONAL PROBLEMS

With the Tax Reform Act of 1986 requiring many fiscal yearends to be converted to calendar yearends, the seasonal work demands of a tax practice have been intensified. To help cope with the shift in work load, our firm employs seasonal staff and has been successful in upgrading the work assignments of paraprofessionals and other staff members during tax season.

In our firm, experienced technical staff meet with almost all the clients for whom we complete tax returns, and are responsible for reviewing all source documents, analyzing work sheets completed by the clients, and for preparing adequate file notes to permit another individual to complete the computerized input sheets that we use. We find paraprofessional and seasonal employees to be ideal candidates for this last-named task.

By seeking individuals with the requisite skills and experience and by providing them training in tax return preparation, we have found that the impact on the work load can be minimized. In addition, we have been fortunate in retaining the same people year after year. This creates certain advantages because ongoing training is reduced and productivity is enhanced.

We began by providing training to the paraprofessionals who normally work in the payroll tax, sales tax, and writeup areas. The training primarily addressed the proper processing of the computer input sheets used for tax return preparation. By having the source documents and work papers previously reviewed and detailed by a qualified individual, the paraprofessionals are able to successfully accomplish this processing. The professional staff can then concentrate on issues of greater technical complexity.

Our firm has also been successful with part-time and seasonal employees. Practicing, as we do, in a rural area of Minnesota, we hired two grain farmers who had the necessary education and technical training to assist us during the busy season. For these individuals, our busy season represents months when their work load is otherwise light. Because they had past experience in tax return preparation, extensive training was not required. We still needed to update them on current tax developments, however, and to provide some training on the computerized tax preparation system we use.

We think there are excellent prospects for hiring part-time and seasonal employees in all parts of the country. In agricultural areas, for example, farmers and ranchers with sufficient education or training often look for employment during the months when they are not busy. Spouses who are not employed outside the home are also excellent candidates to become seasonal employees. Even retired professionals and business people in a community may be interested in assisting on a part-time or seasonal basis. College students are another possibility if there is a college campus in the area. Hiring them not only helps with the work load, but also provides a basis for determining their potential as future full-time employees.

One of the issues we faced was the work-space requirements of seasonal personnel. Since, in our firm, they are almost exclusively involved in the preparation of the computer input sheets and have essentially no client contact, we found that only a semiprivate workstation or a desk in a common area was required. We even found we could use the library and conference areas as temporary workstations for them. Nevertheless, we believe it is important to provide everyone with a specific work area so that he or she can organize supplies and information, resulting in a more efficient operation.

Another approach to handling the work load is to calculate full-time staff needs in terms of busy-season requirements, and to consider shortening office hours during the summer months. Some firms, for example, close their offices at noon on Fridays or have shorter workdays during the summer months. Other firms have implemented a program of flexible work schedules which require employees to work a certain number of hours within a given time period. Whatever the arrangements, the implications of the Federal Fair Labor Standards Act must be considered.

There is a belief that it is difficult to locate and properly train people for seasonal work. I suggest you use your client newsletters and client seminars to communicate the fact that you are looking for help during the busy months. Offer training and other assistance to potential candidates. Some of your clients may know of people who have been involved in tax preparation in years past, or who have some knowledge of the area.

There is little doubt that technical limitations may initially exist and productivity may lag. Do not become discouraged. Proper training and a little experience will quickly overcome these deficiencies.
The seasonal demands of a tax practice result in significant operating burdens to practitioners. At our firm, we have found at least a partial solution to the problem by upgrading work responsibilities of paraprofessionals and by employing competent seasonal staff. It is an approach which is worth a try. ☑

—by Robert J. Ranweiler, CPA, Biebl, Ranweiler & Co., Chtd., 108 North Minnesota Street, New Ulm, Minnesota 56073
FROM ARCHAIC TO ELECTRONIC FILING

For thirty years, I prepared individual tax returns by what I now call the "archaic method." The following scene was typical:

☐ Client drops off papers.
☐ CPA reviews papers and begins tax return. Client not present.
☐ CPA has numerous questions, tries to contact client, and plays telephone tag for a couple of days.
☐ CPA completes the return and prepares two copies (original for client to mail, copy for client's file, copy for CPA's file). CPA calls client to review return.
☐ Client finds last-minute piece of data. CPA enters data and repeats above step.
☐ CPA gives return to client, who mails to the IRS. "Don't forget to mail the return certified return receipt requested," the CPA utters as the client walks out the door.

Our firm began to file returns electronically (whether the client owes money or is due a refund) three tax seasons ago and has experienced a 50 percent reduction in the workload for collating and copying returns. Let me explain the system.

The IRS electronic filing program

To become an electronic return originator (ERO), a CPA completes Form 8633, Application to Participate in the Electronic Filing Program. (There is a December 2 deadline for the 1996 tax season.) Upon acceptance, you receive an ERO number to use when transmitting tax returns electronically.

Publication 1345 (Rev 10-96), Handbook for Electronic Filers of Individual Income Tax Returns explains the electronic filing program and the ERO's responsibilities. There are some added responsibilities beyond the current preparer's duties, but these are minimal when compared with the time saved for filing tax returns.

Using the electronic filing method, the following scene is now typical at our firm.

Client makes an appointment. The preparer enters the data using our software programs (TurboTax ProSeries), while the client is in our office. All questions are answered and often one visit is sufficient. If the tax situation is more complex, the client leaves the data, and we prepare the return after research is completed.

Audit and completion of return. All returns are laser printed, thus eliminating the need for approved IRS forms to be stocked. The form approvals are obtained from the software developer. These become the clients' copies.

Form 8453, U.S. Individual Income Tax Declaration for Electronic Filing. An electronically transmitted income tax return is not considered filed until this form is signed, dated by the taxpayer, and is received by the IRS. Before the return is transmitted electronically, the client verifies the information on the return and signs Form 8453. Our firm mails this form along with W-2s or other data directly to the specific IRS Service Center. The client doesn't send in any tax forms.

☐ If a client is due a refund, the amount is directly deposited to the client's checking account within two weeks of the end of the filing cycle. This cycle closes at noon each Wednesday. Refunds are forwarded on the following Friday. The first closing date for tax year 1996 is January 15, 1997, with a refund date of January 24, 1997.
☐ If a client owes taxes, the client mails in one piece of paper, Form 1040V, Payment Voucher, with a check attached. This form is supplied by our office. (A return can be electronically filed and accepted by the IRS on February 1, but payment is not due until April 15.)

Filing the return electronically. The return is transmitted directly to the IRS. Within twenty-four hours, our office knows whether it has been accepted or rejected. Rejected returns are examined and, when the errors are corrected, refiled with the IRS.

Form 9325A, Transmission Confirmation to Taxpayers Who File Electronic Returns. When the return is accepted by the IRS, Form 9325A is printed at our office and mailed to the client. This acts as confirmation (the only legal proof) that the IRS has received the client's tax return.

The advantages of filing individual 1040 tax returns electronically include faster receipt of refunds (two weeks, as opposed to six to eight weeks), more CPA control over the tax filing process, the return is recorded by the IRS the way the CPA submitted it, notification of any errors within twenty-four hours (the rejection notice indicates the item(s) that require correction), and, as stated above, legal proof of filing the return.

I encourage other CPAs to embrace the IRS' electronic filing program because of the advantages it
offers. Electronic filing keeps us on the cutting edge of technology in tax return preparation, and better enables us to provide the quality and professional service our clients demand.

—by Andrew J. Slizewski, CPA, Slizewski & Associates, Suite 106, 1270 Diamond Springs Road, Virginia Beach, Virginia 23455, tel. (757) 460-5863, FAX (757) 363-1939, E-MAIL mmmb53@prodigy.com
Take Advantage of Marketing Opportunities During Tax Season

Developing new business is not usually foremost on many practitioners' minds during tax season. There are already too many other pressures and deadlines at this time of year. But if marketing activity, in general, is currently slow, this must surely present opportunities to firms where such efforts continue.

Let's consider for a moment. This is the time of year when clients and prospects focus on budgets and forecasts and on tax and accounting issues. In addition, if prospects are dissatisfied with the level of service they receive from their current providers, this is the time of year when any shortcomings and shortfalls are most acutely felt. In brief, tax season should provide a number of opportunities to engage in cross-marketing to present clients and to bring in new ones.

One of the elements of marketing professional services is to develop relationships with potential buyers. This necessitates really learning about the individual, the company, and the industry in order to diagnose needs. The key to developing such relationships is client contact, something that occurs more often during tax season than at any other time of the year.

You should use every contact as a marketing opportunity. You know more about your clients' business operations and financial results now than at any other time of the year. You can evaluate this information with a view to determining additional client needs and providing more effective service. When tax returns and financial statements are completed, you can show clients the results of last year's strategies and suggest future steps. The management letter and financial statement review also provide opportunities to identify requirements and make recommendations.

To effectively cross-market services, you should try to build relationships with executives in various departments of clients' businesses in order to determine their specific needs. Breakfast and lunch meetings are ideal for that, even during tax season. Regular contact should also be maintained with referral sources and prospective clients.

Partners, managers, and senior staff should all be trained to identify new service possibilities during client engagements and to market the firm at every opportunity. Often, CPAs don't know where to look for new business. In an article, "Why Most Sales Training Doesn't Work for Accounting Firms," in the June 1989 issue of the Practicing CPA, we suggest firms give professionals a systematic way to define where their best opportunities lie. First focus on the current client base, then concentrate on maximizing referrals from clients and other sources.

It goes without saying that new business development has become a necessity for accounting firms. Marketing should be a year-round activity, even during the busiest months. Set up tracking systems to monitor this activity. This will let everyone know the importance attached to developing new sources of revenue.

—by Michael G. Cummings, Sage, Inc., 120 S. Riverside Plaza, 15th Floor, Chicago, Illinois 60606, tel. (312) 559-0830
MAKE THIS TAX SEASON A MARKETING OPPORTUNITY

At this time of year, many CPAs decide to put off marketing activities until tax season is over and they have more time. They don’t realize that tax season offers more potential for marketing than any other time of the year. As a result, they miss some great opportunities for increasing business and growing their practices.

One of the elements of marketing professional services is to develop relationships with potential buyers. The key to developing such relationships is personal contact, and tax season offers many opportunities for that. Following are some ideas for using tax season to strengthen relationships with current clients, market additional services, obtain referrals, and enhance your image in the community.

Strengthening relationships

Asking the right questions, empathizing, and really listening to what people are saying does more to strengthen relationships with clients than the advice you give them. But don’t just talk about taxes. There is more to life than that. Show you care about clients by demonstrating interest in their personal lives and activities.

Create a calm, reassuring atmosphere. Don’t tell clients how busy you are or how everyone on the staff is suffering from work-related stress. Make sure your desk is cleared for the client’s work papers. Don’t have files scattered around. The worst impression you can give is that clients are an inconvenience to you. Have some specialty item (calendar, coffee mug, notepad, organizer, etc.) that you can give them and provide refreshments for people waiting to see you.

Remember to thank clients for their business and include a short questionnaire with their tax returns. Follow up on complaints and suggestions and make sure you respond. Let them know you are really listening.

Marketing additional services

Prepare a complete listing of the services the firm offers and provide everyone who has client contact with a copy. Make sure everyone has adequate training on the use each service, the type of client that could benefit from it, and how they would benefit. Sales training is essential. All members of the firm need to understand that providing new and additional services helps the client. Overcome, through training, any worries about being considered too pushy. The day has not yet arrived that people are complaining about receiving too many phone calls from their CPA.

Provide everyone in the firm with copies of industry and service brochures that describe the services offered. And be sure the reception area is well stocked with these and with educational and promotional materials for clients and other visitors to read.

Obtaining referrals

Referrals are the best source of new clients (most come from present clients, bankers, and attorneys), but opportunities to ask for referrals are frequently missed. Many CPAs just wait for them.

Don’t wait. At the conclusion of a client visit, ask for referrals. You can do this in a friendly way that actually compliments the client. For example, you could say, “John, I have really enjoyed working with you over the years. It is great to have been part of the changes and growth you have experienced. Our firm wants to expand this area of practice, and I am looking for clients I would enjoy working with as much as you. Whom do you know who might be interested in the services we provide?”

You can provide more information, such as the preferred size of business, type of service or person to jog the client’s memory. Satisfied clients are usually pleased to help you with referrals.

Reciprocate with referrals whenever possible. Remember, it is a two-way street. And follow up every referral with a thank you note or phone call, even if you didn’t obtain a new client or more business. Thank the person for the opportunity.

Enhance your image in the community

With everyone’s thoughts on tax and accounting issues, this is an opportunity to enhance your image as a source of help. You might consider radio, television, and newspaper advertising to increase your visibility. Direct mail advertising to niche and industry specialties does not have as wide a reach but is more targeted. You might consider that, too.

But perhaps the greatest media opportunity for CPAs during tax season is as a source of facts. Business and finance reporters need case studies, opinions, and other numbers-based facts. Be available to reporters, and when they contact you on relevant topics, don’t talk in lengthy explanations. Be specific and fact-based, and try to be quotable.
Every member of the firm should be trained in how to network, how to strike up a conversation, how to ask questions, how to respond to questions, how to hand out business cards, and so on, and should be encouraged to engage in networking activities. You should seize every opportunity to network and have business meals with bankers, attorneys, and other referral sources. You want to be the first person who comes to mind when they have clients who need a CPA.

Marketing should be a year-round activity. Every contact by every member of the firm should be considered a marketing opportunity. If everyone increases his or her awareness of the opportunities available, the results can be significant. —by Danna Beal, Danna Beal Consulting, N.10138 Seminole, Spokane, Washington 99208, tel. (509) 466-2619, FAX (509) 466-4352
A POST-TAX SEASON ANALYSIS

Although our firm still tracks time spent preparing all tax returns and bills a number of clients according to the time spent, we bill most individual tax returns based on published fees per schedule prepared. The amount for each applicable schedule is written on a special form and is included with the client’s tax return. This form is the client’s bill.

We adjust some of the rates from year to year to reflect cost-of-living increases. For example, the fees for preparing Form 1040, Schedule A, and the state return were increased seven percent last year. There were smaller increases affecting a few other schedules. Thus, depending on the number and type of schedules required, the total tax return preparation fee paid by some individual clients might have increased considerably less than seven percent from 1989.

The form is easy to use. It puts all clients on an equal footing and removes any subjective concepts, such as charging fees based on net worth or basing the amount on fees paid to former accountants.

When preparing the 1990 returns, we noticed that for a number of them the total fee charged had decreased from the previous year. This was because the returns were less complex and required fewer schedules. We also noticed that the fees would have declined had we billed by time spent. Post-tax season was clearly the time for a broader look to determine what had changed in our tax return preparation work and what corresponding adjustments were needed in our rates.

We selected a sample of tax returns prepared for clients who were billed based on published fees per schedule and tabulated the total fees charged for both 1989 and 1990. (We excluded returns billed by time only and those not prepared by our firm both years.)

Out of 123 sample returns, we found that
65 had higher fees in 1990, increasing by $3925
50 had lower fees in 1990, decreasing by ($ 3067)
8 had no change in fees for 1990
Net fees increased on sample returns by $ 858
Percentage increase 2%

What this means
We now realize that no matter how we bill, a certain segment of our clients will have fewer schedules or the preparation of their returns will take less time, both resulting in lower fees. This tells us we have to increase our rates each year just to stay even.

Prior to the Tax Reform Act of 1986, many of our clients had invested in tax shelters, including limited partnerships and rental property. Suddenly faced with much more work to prepare 1987 returns, we increased our fees.

Since then, we have become more productive. With the aid of microcomputers, we can prepare tax returns much faster and more efficiently than we could four years ago. We therefore have less time invested, and, when using published fees per schedule, realize more per hour than we previously did. For individual returns prepared during last tax season, our actual billed fees were 6.2 percent greater than they would have been on a time basis.

Many tax returns are easier to prepare than in prior years. Because of changes in tax laws, clients have fewer limited partnership investments. As the old investments are sold or terminated, they are not replaced. With increases in the standard deduction, other clients no longer itemize. These changes result in easier and less expensive return preparation. That is not to say all returns are easier to prepare than before, but our survey showed that forty percent of the returns were less complex in 1990 than they were in 1989.

Where do we go from here?
Overhead increases annually. Employees expect annual pay increases, and operating expenses such as rent and the cost of supplies rise by four percent to five percent each year. We know we cannot increase our rates by more than the rate of inflation and expect to retain all of our clients. What then is the answer?

The answer appears to be continued proficiency in the preparation of accurate, quality-controlled tax returns in less time. This will result in a greater realization per hour expended. Another part of the answer is to continually add to our client base.

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PART II—MARKETING
SECTION 1—APPROACHES TO MARKETING AND SELLING

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WHAT MARKETING IS

Have you ever thought about what drives the typical business owner to choose one service provider over another? Is it the cost of a particular service, details of what will be provided, or the results that might be achieved by using the service? To successfully market services to entrepreneurial business owners, you have to put yourself in their position and view the world as they do.

Before you engage in any marketing activity, first consider how you personally select professionals in areas where you probably don’t have much expertise — a doctor and a dentist, for example. Would you automatically choose the cheapest ones in town? It is highly unlikely.

Perhaps you believe that the market for CPAs’ services is different and that fees are a significant issue to prospective buyers. To some, it is, of course. Others, however, are more interested in results. An entrepreneurial business owner would likely be in this category. If this is the type of client you want, you can reach them through effective, targeted marketing.

Putting marketing in perspective
Many professional firms still market their services as though they were tangible goods. This is a mistake. The purpose of marketing a tangible item is to persuade the prospective buyer to purchase the finished product off the shelf. Personal relationships between the buyer and the salesperson are not important if the product is what the buyer wants.

Marketing professional services is different. Interaction between the client and the provider of the service is important. Prospective buyers often have no point of reference with which to judge the service being offered. CPAs are, basically, marketing themselves.

Marketing is a contact sport
In reality, any contact you have with clients, prospective clients, and referral sources should be considered professional services marketing. By any contact, I mean telephone conversations, letters, the finished product you deliver to clients, and so on. You are always marketing yourself and the firm whether you are conscious of it or not. So are other members of the firm. Marketing is broadcasting. Its very essence is communication.

Because behavior, personal appearance, the way the office is decorated, the way the phone is answered, and the way people are treated send messages about the firm, they affect the way it is perceived and may determine whether or not you obtain opportunities to develop more business. Keep in mind that every person your firm has contact with has his or her personal network, comprising, perhaps, 250 people. When you think of powerful marketing, remember that you are broadcasting not just to the contacts, but to that number of individuals times 250.

The success of your marketing depends not only on the image or message provided, but also on its frequency. The more frequent that contact, the more often the opportunity to persuade others to purchase your services. “Out of sight, out of mind”, is an axiom that can be applied to whether or not you will obtain referrals, leads, and new business.

This axiom is proved time and again by the firm that provides an annual service but has little or no contact with the client the rest of the year. On arriving the following year to perform the service, the CPA firm finds the client has replaced its old computer system with a new one — without telling the CPAs. The CPA firm might have been able to assist in the selection and installation process. Not only was this opportunity lost by not maintaining contact with the client, but the client/CPA relationship could be jeopardized by another service provider entering the picture.

Other examples are the practitioners who provide write-up, compilation, or review services but who have little direct contact with clients. Some practitioners have no contact at all, conducting business entirely through the mail. This might save time, but it is poor marketing.

The marketing method that produces the most consistent results is personal marketing. By personal marketing, I mean any activity that puts you in front of someone with whom you would like to do business. Many CPAs would like to know of a method that produces business for the firm without their personal involvement. Unfortunately, none exists. The essential ingredient to successful marketing is personal contact. The more frequently you have contact with clients and referral sources, the more likely you are to increase your business. ☑

— by Allan S. Boress, CPA, 1500 University, no. 239, Coral Springs, Florida 33071, tel. (305) 345-4666
MARKETING YOUR FIRM FROM THE INSIDE OUT

There is a common thread running through the operation of a successful accounting firm and a successful sports organization. Both require teams that are committed to their organization's game plan, and coaches who inspire the players to give a 100 percent effort.

The challenge in a CPA firm is to create a culture where marketing is encouraged by the coaches and accepted by the players. Victory will come from the team's marketing efforts (the game plan). There are four main components to a successful game plan.

Demonstration. Don't expect staff to become excited about marketing activities if partners do not participate. Staff pays more attention to what partners do than to what they say, so the partners must be the role models.

We use a self-assessment form on which partners rate their involvement in certain marketing activities. This includes the amount of time they devote each month to learning about clients' businesses, how often they contact clients, whether they routinely obtain feedback on the value of our services, and whether they obtain input from their engagement teams regarding additional services clients may need.

Partners also rate their efforts to expand the firm's client base. Activities in this area include meeting regularly with referral sources to discuss business opportunities, attending trade association meetings and civic functions to make new acquaintances, and promoting their skills and expertise by giving speeches, making presentations, and writing articles.

The partner self-assessment form also covers internal marketing efforts. These activities include inviting younger members of the staff to various association and civic functions, recognizing and rewarding their marketing efforts, and maintaining an enthusiastic attitude toward marketing training and the enhancement of their own sales and marketing skills.

Information. People need to know what is expected of them if they are to perform up to expectations, and the information process should begin when staff is recruited. We let people know at the outset that our firm is marketing-oriented by discussing our "marketing career ladder" with them.

This document outlines specific marketing activities in which an individual is expected to engage during progression from staff accountant to part-
speaker and how to think on your feet. At the staff meeting presentation program, we teach staff how to talk about the firm. This training is particularly important for the receptionist, who is frequently the person who makes a lasting impression on clients and potential clients. The basic idea behind these programs is to train people to listen and critique, to find out where they need help, and to give them sufficient training and follow up.

Motivation. Make marketing fun. Establish a formal recognition and reward program. Recognize people for their attempts, as well as their successes. We use internal newsletters and firm scrapbooks that contain items such as newspaper articles, motivational quotes, and photographs. We also maintain bulletin boards on marketing matters, and a library of motivational tapes and books.

Involvement in community events helps build team spirit. We participate in the annual corporate challenge, softball, and swimming events. These activities can even be turned into informal marketing functions—softball games with referral sources, for example. The events should be enjoyable. We encourage staff to devote a day to such activities. It’s a good way to meet people.

All four components of the game plan (Demonstration, which covers partners as role models—Information, which examines how firms convey information to staff regarding their expectations—Education, which discusses ideas for training/educating staff to market the firm—Motivation, which deals with attitude adjustment) are necessary to develop a strong marketing culture in a CPA firm.

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SECRETS FOR AN EFFECTIVE MARKETING APPROACH

In my article, "Communication Secrets of Marketing Pros," published in last month’s Practicing CPA, I presented some ideas for enhancing your personal marketing ability, and described some tools you can use to draw attention to your ideas. But what can you do to make sure your personal marketing efforts stand out and are effective?

Let’s think about this for a moment. We all use the same marketing tools: publicity, direct mail, networking, advertising, association membership, writing articles, and so on. And we all have access to the same books, magazines, public speakers, case studies, and information regarding the latest marketing techniques. So, does this mean we all get the same results? The answer is, “No, of course not.” It is how we apply these marketing tools—our approach—that makes the difference.

Even if you were to share details of your marketing plan to your competitors, they would not get the same results. The better your marketing is, the truer this becomes. Your competitors may try to emulate you, but by the time they do, you will have moved on to something better. The very nature of effective marketing requires constant innovation and unceasing, disciplined energy. Following are eight action steps that should help ensure your marketing efforts pay off.

Be sensitive. Take time to understand your target market before you deliver your message. Get out of the office and into the minds of your prospects. Immerse yourself in their concerns, cultures, challenges, and influences. As you develop your marketing approach, share your ideas with prospects to obtain their feedback as to your programs. Then refine your approach based on that feedback.

Be creative. Don’t follow the lead of others. Be different. Once you truly understand clients, referral sources, and prospects, become creative and develop exciting programs. This means taking risks, spending money, and making mistakes. It can also mean achieving more success than you ever imagined.

Most people can research their targets and develop a reasonable strategy for reaching them. Where they often fail is in empowering a creative leader to develop a marketing program that will compete with the hundreds of messages people receive each day. If you are not a creative leader, you might consider hiring a marketing director or consultant, sharing as much information as possible, and empowering this individual to create exciting programs.

Think big. The steps you took to develop your career in accounting were deliberate and orderly. There is no reason to limit yourself to orderly, linear progress in the growth of your practice, however. Design your marketing for substantial results. Effective marketing can have a major impact, and you may find your practice growing in large spurts. Hang on for the ride. Keep your eyes on the big picture but don’t trip up on the details.

Use synergy. Once you have put your head and heart into developing a creative approach, don’t use it only once. Weave a consistent look and message into all your communications. Your campaign should reach prospects in the newspapers they read, the seminars, meetings, and events they attend, the news they hear or watch, and the mail they receive. It is the consistent, well-presented message that breaks through the clutter to get attention and encourages your targets to remember and act when their needs arise.

Demand the best. In developing your marketing program, surround yourself with talented, motivated enthusiasts, and demand superlative efforts. It is better to develop a few projects to the utmost of your ability, than to be involved in a variety of half-hearted marketing efforts. And include as many people as possible in the program. The benefits are firm-wide.

Constantly evolve. Make a conscious effort to grow professionally and personally, and nurture the growth of colleagues and staff. Often, developing marketing programs that challenge you in new ways will benefit the entire firm. The pursuit of new ideas and methods can draw enthusiastic interest from clients, prospects, referral sources, and the people with whom you work.

Learn to delegate. The more you care about the quality of your work, the more difficult it often is to prioritize and delegate. If you are constantly submerged in project detail, however, you will not have time for regular creative thinking or for marketing. So, learn to delegate. Give yourself some breathing room and provide a way for others to grow.

Be passionate. Persuasion is based on emotion, not logic. If you truly believe your approach and services will benefit others, and if you really want to work with a particular prospect, share that
enthusiasm. In today's marketing situation, few people can resist someone who sincerely cares about them and wants to make a positive difference in their life.
LESSONS FROM THE BEST BUSINESS GENERATORS IN THE PROFESSION

How can anyone get better at anything? This seems to be a simple question, but it is a tough one to answer. We think that one of the most promising areas in which to find an answer is the world of sports. There, sport psychologists and coaches make use of a method known as neurolinguistic programming (NLP) to enhance the performance of athletes. Individuals seeking to improve their skills in other areas, besides athletics, can use NLP, too.

The first step in applying NLP is to find success models. These are people who are already achieving the results you want. Then, you must diagnose what they are doing to get these results. To do this effectively, you must gain insight into how they think, as well as how they act. The third step is to find a way to systematically use the techniques yourself. You should start modestly and try to gradually improve your performance within your own natural style. The final step is to commit to a long-term process of continual improvement and reinforcement. Productive change takes time.

Right now, there is a great deal of interest in sales training to make CPAs better at business development. For lasting improvement, though, we suggest you use NLP to learn the techniques of the best business generators in the profession. Since they produce the results you want, why not analyze how they do it—how they act, for example, and how they manage client and referral relationships.

To apply the process to effective practice development training, let's look at those steps again.

☐ Find successful models. We interviewed over sixty of the best business generators in firms of all sizes, and found that they share some common attributes and behavioral patterns that make them effective.

☐ Diagnose what they do. Based on trial and error, as well as through some natural entrepreneurial instincts, the rainmakers know what works and why. Their thought processes and behavioral patterns become systematic.

☐ Find a way to transfer the skills to others. Because the process has become instinctive, many business generators cannot teach what they do. We usually find it necessary to create a specific structure in which to train CPAs to emulate the behavior of the best business generators.

☐ Foster continual improvement and reinforcement. CPAs need to recognize that developing marketing and selling skills takes time and constant practice.

The key success strategies of the best business generators

There are several attributes that the best business generators have that set them apart from everyone else. We will describe four characteristics that we think are the most important. The first two concern their ways of thinking, and the others deal with what they do.

The best business generators are not "born sales people" by any means. Rather, they simply work harder and more consistently at business development than their peers. They do this even though they tend to have more time pressures and competing priorities than their partners. (Many of the rainmakers, in fact, are managing partners.) "I am not expert at salesmanship," said one, "but I can outrun my competitors through sheer effort."

As an example of effort and persistence, one CPA called the president of a prospective client company four times a year for eight consecutive years! The CPA's persistence was rewarded in the eighth year when the former audit partner was rotated off the account and the prospect was willing to engage another firm.

Business development is always on the minds of the best rainmakers. They see every contact with referral sources, prospective clients, and with present clients as opportunities to solidify relationships and to identify service needs. Even at social events, they will ask questions, listen carefully, and probe for unmet service needs or signs of dissatisfaction with the prospect's current accountant. Recognize, however, that all prospecting is done in a low-key, unobtrusive, and thoroughly professional manner.

The starting point for excellence in business development is a clear goal. Without it, your marketing effort will be diffused. The best business generators know specifically the type of client they want, and concentrate their full energy, time and skills on pursuing only these targets.

One successful practitioner, for example, described his ideal next client as a "real estate developer of mainly apartment buildings in the western suburbs of Chicago. Also, the client should be active in the local real estate association and be willing to introduce the CPA to banking contacts."

Surprisingly, the best business generators have fewer referral sources than we expected. Their rela-
tionships with bankers and attorneys, though, are much stronger and more productive than the typical referral relationships of most accountants. They form alliances and have clearly defined business relationships. In fact, the rainmakers treat their referral sources as clients—marketing to them, negotiating straightforward ground rules, and maintaining frequent contact and communication.

The way to grow is to create more business developers

Business development is a skill that can be learned and cultivated. It is not solely a natural talent. The lesson for all practitioners is that the best business generators in the profession built their skills through constant practice and constant striving to be more productive. These are skills that can be emulated by others. For in the final analysis, no amount of marketing can make up for the lack of personal skill, effort, and initiative. It is these characteristics that lead to a successful, thriving practice.

WHY MOST SALES TRAINING DOESN'T WORK FOR ACCOUNTING FIRMS

Last summer, we met with a senior partner of a large regional firm in the Midwest. When asked why he wanted to talk with us, his answer was surprising. "You know," he said, "I'm 41 years old and I'm beginning to plan for my retirement. Frankly, I'm worried. None of my younger partners, and actually only a few of the older ones, have the skills and desire to go out and develop business. Unless they get better at bringing in work, they won't be able to fund my retirement."

This partner realized that he was at his limit. He had the skill to bring in more business than he could possibly do or supervise. So, for the firm to do better, he saw that he needed to get the other partners as proficient at bringing in business as he was.

During the previous year, to enhance his colleagues' skills, he engaged a well-known sales training firm to conduct a program, and invested two days of his partners' time. What was the result? Absolutely nothing. No additional effort by the partners. No perceptible improvement in skills. The same disappointing results as before.

Ultimately, the result for this partner was that his retirement remained in jeopardy. In addition, he damaged his internal credibility and wasted his partners' time.

We've seen this pattern repeated in many accounting firms. Most sales training doesn't make a bit of difference in generating more business, because it doesn't adequately address the complete challenge and extent of building business-generating skills.

To show you what we mean, let's take a closer look at why many CPAs underachieve in areas of business development. The reasons we find most prevalent are:

- **They simply don't know how to market or sell.** Many accountants lack the full complement of skills necessary to bring in business. In fact, many view business development as a natural talent rather than a skill—you're either born with it or you're not. They also mistakenly perceive marketing as glitzy brochures or high-profile public relations which should automatically result in business. Many see selling as simply persuasive talking or high-pressure closing tactics.

- **There is no good reason for them to hustle harder to bring in work.** As professionals, CPAs face enormous pressures to stay chargeable. This keeps most of them extremely busy. Doing pro-

active business development, even with present clients, is often seen as extra work.

- **Many accountants don't know where to look for new business.** Numerous CPAs, especially younger professionals, don't know who to target for promotional efforts, or where the best sources of new business are. And, in many firms, there is no way to learn where to focus your effort for the best payback. Even if there are proven business generators within the firm, rarely is time or effort devoted by the rainmakers to teach their skills to others.

- **Many CPAs don't like prospecting and selling.** If they did, they would have become salespeople instead of accountants. The prospecting and selling process often leads to feelings of personal rejection and failure as well as lowered self-esteem. Logically, many CPAs seek to avoid this unpleasantness by avoiding the prospecting and selling process altogether.

Also, many accountants set themselves up for failure because they don't effectively use marketing tools to prequalify hot prospects. Without effective personal marketing, every business development call ends up being a cold call or a tough sale. And this leads to more frequent rejection and failure.

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**Adopting the behavior of a sales person is totally inappropriate**

- **It's too hard to change.** Changing business-development behavior is difficult simply because it requires change. This takes time and requires commitment and a system of application and focus on continuing incremental improvements. Most sales training efforts are one-shot programs that lack any approach for continual improvement or reinforcement. Accordingly, no improvement or positive change occurs, and no results are produced.

- **They think they should behave like sales people rather than professional consultants and relationship managers.** Common sales training reinforces this tendency in professionals. Sending accountants out on sales calls with old-
fashioned sales techniques that were originally designed to sell copy machines and other tangibles is tantamount to consigning an auditor to an engagement with an abacus instead of a personal computer. Adopting the behavior of a salesperson (which is what common sales training instructs) is totally inappropriate for the consultative personality of a CPA. Credibility can be destroyed completely when an accountant “shows and tells” the “features and benefits” to a prospective client. It is even more inappropriate in an existing client relationship.

As you can see, traditional sales training fails to address any of these challenges and may, in fact, add to the problems by teaching the wrong approach. So, how can you develop the skills you need to succeed?

**How to get results**

To get results, your skill-building programs must address each of the following six barriers. Also, as an individual, you should view each of these areas to see where you personally may fall short. In this way, you can clarify what steps to take in order to build your business-generating skills.

Here are some ways to address deficiencies in your skill-building efforts.

- **If your professionals lack the full complement of individual marketing and selling skills necessary to produce results:**
  1. Start by recognizing that business development is a skill that can be acquired just like auditing. It is not simply innate.
  2. Develop a plan of attack to build skills in all aspects of business development. This would include prospecting, personal marketing, face-to-face situations involving new clients and services, managing existing relationships, following through on marketing activities, telephone selling, account development strategies, and time management.
  3. Success isn’t accidental. Think about the best business generators in your firm and at other firms you know well. What distinguishes these partners from the others? What do they do right? Use them as success models to get others started using the same approaches and adopting the same behavior.

- **If your professionals lack good reasons to hustle harder:**

- **If your CPAs don’t know where to look for new business:**
  1. Give your professionals a systematic way to define where their best opportunities lie. For example, most CPAs should focus first on their current client base to determine work opportunities and service strengths.
  2. Concentrate on developing ways to maximize referrals from both current clients and third parties.

- **If your accountants don’t like to market and sell:**
  1. Find out why they don’t like it. Some professionals may be unsure of what marketing and selling really is. Others may be skeptical of their ability to do it. Rather than ignore this area, you must surface and address any inhibitors.
  2. Give them a professional selling system with which they are comfortable. If accountants have a well-defined methodology for selling or marketing, we’ve found that they like it better and are more at ease in a selling situation. It also allows them to be natural when promoting work.

- **If it’s too hard to get your CPAs to change:**
  1. To foster change, you need to get your people into action. One approach that works, we find, involves a contract of action—a commitment to others that the CPA will follow through on the actions he or she prescribes.
  2. Stress incremental improvement and continual reinforcement. Take care to ensure some quick successes so that CPAs are motivated to continue honing their business.
development skills.

If your professionals don’t want to be turned into salespeople, don’t make them!

(1) Help them use their diagnostic skills to identify with whom they should be doing business and what prospective or current clients should be buying.

Transforming your firm
Today isn’t yesterday. Proactive business development is now a requirement for accounting practitioners. We’ve found that success in business development centers on the capability of individual partners and the focus, vitality, and intensity of their business development efforts. So, to enhance your results, start by investing wisely in the business generating skills of the professionals in your firm.

Be aware, however, that most sales training offers only a partial solution to the problem. Above all, you need to make a commitment to transform your firm through a planned, systematic skill-building program.

—by Allan S. Boress, CPA, and Michael G. Cummings, SAGE, Inc., 120 S. Riverside Plaza, 15th Floor, Chicago, Illinois 60606, tel. (312) 559-0830
EXECUTIVE SELLING SKILLS

Let's talk about your job. I would like to suggest that a key part of your job as a CPA is to persuade clients and staff to take a course of action you deem appropriate.

If you agree with that, I would like to recommend that when the time comes to persuade others, instead of talking across a desk, you stand up and give a presentation using visual aids. In fact, a study at the University of Minnesota in June 1986 revealed that an audience would be 43 percent more likely to be persuaded if you used this technique. Furthermore, they would be willing to pay 26 percent more for the same service.

Another study, this one conducted by the Wharton School of Business at the University of Pennsylvania, was made of two group presentations to persuade people to invest in a new business. The first group of speakers made their presentations while seated across a table from the prospective investors. At the conclusion, 58 percent of the prospects agreed to invest in the new business.

The second group of speakers used the same facts and business statistics, but each presenter stood and used visual aids. This resulted in 79 percent of the prospects agreeing to invest in the business. Moreover, these presenters were perceived as being more professional, more persuasive, more credible, more interesting, and better prepared.

Other university studies of this presentation technique show that it increases learning ability by 200 percent, improves retention by 38 percent, and reduces the time needed to explain complex subjects by 25 percent to 40 percent. In the minds of clients and prospects, the quality of such a presentation is a mirror image of the quality of your firm, the people in it, and the services and support you offer.

We spend years obtaining an education and learning and fine-tuning the skills of our professions. Yet most of us spend little time learning the skills to communicate. But brilliance without the ability to communicate our ideas to others is worth little. It is a rare situation where one can have a successful and rewarding career communicating only with computers.

As the accounting profession becomes more complex, the ability to communicate those complexities in concise terms becomes more important and more critical to your career. Presentations come with the territory.

So if you wish to get ahead, become a good presenter. Notice I didn't say excellent or outstanding; I said good. Just do well what most people do poorly.

Please do not accept the myth that good speakers are born not made. Speaking and presenting are skills that we learn through desire, effort, and practice. As with any other learned skill, some people are better at it than others. But wherever you are on the scale today, I promise you that you can be three times better tomorrow.

People tell me, Well when the day comes that I have to stand in front of 20, 50, or a few hundred people, I will prepare a presentation and make some visual aids. But most of my activity in persuading other people is one-to-one.

May I communicate to you the single most effective technique I have ever found for persuading others? It is a one-to-one, stand-up presentation. He or she, alone with me in a conference room. I know it sounds silly to give a stand-up presentation to one person, but the psychology and the impact are overpowering. Here are the reasons why.

You will be a breed apart

Most people have never had anyone give them a one-to-one, stand-up presentation. The signal you send is this:

I am putting you on a pedestal. This decision and your business are so important to our firm that I have organized and formalized my presentation. You deserve the best we have to offer. I believe that our service is so good, however, and so well aligned with your goals and objectives, that if I can only communicate this in a convincing manner, then together we can achieve your goals.

The power of this unspoken message as demonstrated by your actions is overwhelming. Your competitors, who do what everyone else does, that is, talk across a desk, will have no chance. What a study in contrast. You will have differentiated yourself from the competition in a dramatic way. You will be a breed apart.

More business in less time with less effort

The results of a study published in the June 1982 Harvard Business Review showed that on average five people are involved in a decision to hire a service provider. So to do a thorough job when seeking new business, we need to contact five people and tell each one our story. That takes a considerable amount of time.
Suppose instead, I call the key decision maker and say I would like to have the opportunity to give a formal presentation on my firm and the services we offer to all the people who will be involved in the decision. This would enable me to use a formal presentation as the catalyst for getting all the decision makers to attend one meeting. I can then concentrate on giving one professional presentation instead of attempting five.

The high level of professionalism exhibited with such a presentation tends to reduce requests for price concessions and special contractual arrangements, and often makes it easier to gain acceptance of desired fee arrangements as well. Across-the-table discussions, on the other hand, tend to reinforce the notion that price is negotiable.

Our clients and prospects are sending us a simple message we don’t hear amidst the complexities of the subject we are presenting. This message says, Before I care how much you know, I want to know how much you care.

This message was understood 2,400 years ago by Aristotle. In his Rhetoric, Aristotle described three requirements needed to persuade another person to a desired course of action.

First, we must appeal to the logos (logic). But, said Aristotle, logic is not enough. We must also appeal to the pathos (emotions). The third requirement, according to Aristotle, is ethos (character). We all prefer to deal with people we like and trust and in whom we have confidence.

And so, we observe that the natural tendency of human beings is to

- Justify on facts, but buy on feeling.
- Justify with business reasons, but buy for personal reasons.
- Justify with logic, but buy on emotion.

My own experience over the years has led me to the simple conclusion that the man or woman who wants to do business with you can justify anything.

The best and most effective way to present the facts, appeal to the emotions, and instill trust and confidence is to give a presentation. If you do, your client or prospect is more likely to want to do business with you. The way to win is to understand what the enemy is doing and to do something different and better.

We must differentiate ourselves from our competitors. Competitors talk across a desk. Don’t do it. Stand up and give a presentation using visual aids. You will win. 

—by David Peoples, Presentations Plus, Inc., PO. Box 8850, Longboat Key, Florida 34228
TELEMARKETING: WARM CALLING WORKS

A growing number of firms are using telemarketing as a tool to generate new business. Some take an aggressive approach, wherein cold calls are made to purchased lists with the objective of setting up appointments with interested parties. Following is a less aggressive approach to telemarketing that may, nevertheless, produce handsome results.

Retain a telemarketer or request an in-house marketing professional to make warm calls to potential clients. These are calls to people who have had some contact with your firm. They may have attended a firm seminar, for example, in which case the conversation may begin with a few questions on their reactions to the seminar. Or perhaps they requested a pamphlet or checklist, which would provide an opportunity to ask for feedback on the material sent. The objective here is to begin a low-key dialogue to gain information about the prospect and to establish direct contact.

Should the called party appear willing to continue speaking, the telemarketer may explore ways in which the CPA firm might be of further service. This could include mailing additional material on specific subjects, newsletter articles, or information on upcoming seminars. Depending on the reception by the called party, further questions could deal with accounting services.

If at any time the called party makes it clear that the conversation has gone far enough, the telemarketer should politely thank the person for his or her time, and terminate the call with a suggestion that the parties remain in touch.

The called party should not feel pressured in any way. Rather, the low-key conversation should be viewed as part of a long-term process to keep communication channels open and to gather information. Indeed, follow-up calls should be planned on a periodic basis. The ultimate objective is to have prospective clients feel comfortable about inviting someone from the firm to discuss their accounting needs when they are ready to do so.

— by Herbert Kaplan, Ridgefield Consulting Group, Inc., 501 Madison Avenue, Suite 2300, New York, New York 10022, tel. (212) 486-8680, FAX (212) 753-3829
SECTION 2—COMMUNICATING EFFECTIVELY

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EFFECTIVE COMMUNICATION LEADS TO BUSINESS

There are many facets to achieving productive business development, but none is more important than effective communications. Unfortunately, this aspect is often overlooked.

Business development is best thought of in two ways:
- Assertively—Obtaining new clients and increasing charge hours.
- Defensively—Preventing the turnover of desirable clients.

In both cases, the manner in which you approach people, carry on a meaningful conversation, and insure closure at the appropriate time will determine the degree of success you obtain. One way to improve your chances of success is to use the following four-step method.

Prospecting

The main objective here is to identify prospective clients and find ways to meet them. While we meet prospects everywhere, we have to learn how to recognize and capitalize on these opportunities.

A second objective is to subtly control a conversation. This necessitates knowing how to direct the discussion toward business matters, how to assess potential needs, desires and problems, how to attract attention to yourself and your firm, and how to obtain an invitation to continue the discussion at a later date.

The way to accomplish these objectives is to listen objectively and empathetically and to express your understanding of what is said. Impress upon the prospect that you or someone else in your firm can help, that there is a need for additional discussion and that you are willing to meet again. When that is accomplished, establish a specific date, time and place, (preferably at the prospect’s place of business) for the next meeting.

Remember, most prospecting conversations take place in a casual setting where time is a limiting factor. Therefore, don’t seek too much information, don’t give too much advice, and don’t try to obtain the engagement then and there.

The opening conversation

When you receive an invitation to meet a prospect, be sure to do your homework before your visit. Find out as much as possible about the person and his or her business. Anticipate and plan the conversation. Your objective will be to
- Follow up on the conversation.

- Obtain sufficient information about the individual’s desires and goals.
- Restate the information gathered so the prospect knows you understand the circumstances.
- Gain the prospect’s trust and confidence.
- Get an engagement.

You can accomplish these objectives by
- Putting the person at ease.
- Getting down to business.
- Encouraging the prospect to talk.

Although these objectives may seem easy enough on paper, you may feel uncomfortable about carrying them out. If you do, get someone in your firm to assume the role of the prospect and rehearse the situation before your visit. During this session, try to develop the ability to persuade the other person to talk. The better you can do this, the more you will learn about a given situation, and the easier it will be to find out what to do to please the prospect.

To encourage someone to converse, you should ask open-ended questions, questions that normally elicit detailed responses rather than a simple yes or no. You should use phrases such as, “Tell me about . . .” or “Tell me more about . . .” And when the other person is talking, remember to use listening responses. These are brief statements or actions that encourage conversation without interrupting the other person. The four most frequently needed responses are nodding the head while maintaining eye contact, casual remarks such as “I see”, silence when the other person momentarily stops talking, and positive body motions and facial expressions indicating interest and understanding.

The specific purpose of the opening conversation is to obtain enough information to develop an assessment statement which
- Briefly reviews and summarizes what the prospect said.
- Allows you to show familiarity with the prospect’s situation.
- Declares your desire to help.
- States clearly how you can help.
- Describes the benefits of your services.

It is important to differentiate between the services provided and the benefits to be derived from them. Remember this tip: Describe the services and sell the benefits.

Overcoming objections

On occasion, the prospect will become a client after the opening conversation. More likely though, the
The practicing CPA on developing and marketing services

prospect will raise objections to using your services. You are probably familiar with the most common ones: “Your fees are too high,” “You are too big (small) to handle my business” or “I have used my present CPA’s services for a long time and feel uncomfortable about changing.”

Objections should be anticipated since they are normal reactions in any selling situation and are often due to a lack of knowledge or understanding on the part of the prospect. Objections must be addressed and overcome if you are to obtain the engagement. Most often, a statement of fact will be sufficient.

Closing the sale
Some engagements might take months or years of perseverance to obtain. But when you feel you are on the verge of adding a new client, remember the five important Ss of closing:

- Summarize the benefits.
- Seek a definite commitment.
- Set an exact starting time.
- State your assurance of a successful engagement in a complimentary manner.
- Shake hands firmly.

While you won’t win in every situation, you should certainly try your best. I am confident the four-step method to effective communications just described will definitely improve your chances of success.

—by Art Levy, Art Levy & Associates, Inc., P.O. Box 10406, Clearwater, Florida 34617-8406, tel. (813) 443-3000
MAKING A GOOD IMPRESSION EVERY TIME

In general, people are becoming more sensitive to the way they are treated in work and social situations. They observe each other all the time and usually make judgments based on these observations.

We all want to be judged as a person of quality—someone with integrity who can be trusted. A true professional will want to make a good impression every time he or she interacts with other people, not just at the first meeting. For service firms that want to succeed in today's competitive environment, the development of interpersonal skills is becoming a high priority.

Like other professionals, CPAs acquire the requisite technical skills and competencies early in their careers. Once established in an area of expertise, however, time must be spent learning how to build rapport, and how to motivate, inspire, manage, and persuade others to a course of action. Of these "people" skills, relationship selling, or personal marketing as it is often called, is critical to the success of the CPA and the firm.

There are four phases in the cycle of developing business relationships. These are:

□ Building a professional image and reputation. This stage results in a network of personal and professional contacts. This is when you build your reputation of confidence and credibility through good communication and social skills. You become active in trade, professional, business, and community organizations.

□ Developing relationships. This phase results in potential buyers. It is the result of maintaining contacts. Nothing can replace dynamic, long-term relationships built on integrity.

□ Practicing effective selling skills. This stage results in the sale itself. By building a good reputation and developing effective selling skills, new business is consistently obtained.

□ Maintaining client relationships. This is the phase that results in repeat business and referrals. Good interpersonal relationship skills are absolutely necessary. You want clients to be open to value-added services and to making referrals, and remain loyal to your firm.

You need to constantly assess your strengths and weaknesses and, in order to do that, you must be able to identify them. Although inherent strengths never disappear, they grow in usefulness only by adding skills and being able to fully express them.

Education is an ongoing process. It simultaneously increases knowledge, broadens the mind, deepens the intellect, and adds a more stable perspective to the personality. Focusing educational efforts on interpersonal skills is critical.

Understanding how others relate to us and how they perceive us is part of this educational process. Manners are back in style. Courtesy pays. Respectful behavior opens many doors. Good manners means paying attention to social skills.

The United States was the only country to literally put manners on hold for well over a decade. Now, we are seeing business manners emerge that are different from social manners. This can be confusing, but the changing rules reflect today's diverse work environment.

Knowing the rules of etiquette, practicing good manners, and understanding the tenets of protocol not only give people increased confidence, but make others feel valued and at ease in their presence. It is part of the professional demeanor we must exhibit for continued success. Building rapport and trust is crucial to constructive relationships. Building relationships is crucial to success.

Let's review some areas where professional demeanor affects the impression we make on others.

Exhibiting professional office manners

Be respectful of co-workers' time and refrain from idle chit chat or frequent interruptions. Greet all visitors, whether clients, vendors, or associates, in a cordial manner. Make eye contact with every visitor who enters your work area. Smile to make them feel welcomed.

Keep your relationships with clients on a professional level. Don't get too chummy, use nicknames, or become too personal. Practice good hosting skills by offering to take a visitor's coat. (Appropriate guest behavior otherwise dictates visitors keep their coat on the chair on which they are seated.) Indicate seating with a hand gesture or orally if there is more than one seat available. Make introductions even if people may know each other. Don't assume they do.

Offer a beverage, be respectful of time, and never keep waiting someone with whom you have an appointment. If delay is unavoidable, call personally to explain. Eliminate telephone calls and other interruptions when with clients. Give them your undivided attention.

Rise when a visitor comes into your office and offer your hand for the handshake. Never remain seated while shaking hands, unless caught in the banquet at a restaurant. Show respect for yourself.
and your profession by wearing appropriate clothing. Even casual clothes can look professional. There is no excuse today for dressing poorly or for bad grooming.

**Exhibiting a professional demeanor**

Get in the habit of writing thank-you notes to people who have given you a lead or referral, invited you to a lunch or function, or helped you in any way. Answer all RSVPs within seven days. In fact, it is thoughtful to respond to all invitations, whether requested or not.

Upgrade your language to eliminate outdated or demeaning phrases. Say women instead of girls, flight attendant instead of stewardess, disabled instead of handicapped, and spouses instead of wives or husbands. Treat everyone as if he or she matters. Exhibit gracious behavior to everyone. Don't pick and choose to whom you are nice.

Display a positive attitude. Leave bad feelings, envy, and disruptive and disturbing emotions at home. Don't infect the workplace with your bad mood. Omit gossip from the office routine. It never has a positive effect on associates or the work environment.

Polish your table manners. Be skilled when dining. Know how to be a gracious host and have respectable guest behavior. The implication is that if you don't know how to behave at the table, you are probably lacking in other social graces as well.

**Exhibiting professional telephone skills**

Answer all calls before the third ring. Return all calls within six hours, even if only to say that you don't have time to talk. Make sure your voice reflects warmth and enthusiasm. You don't want people to feel they are an annoyance or an intrusion.

When leaving telephone messages, make sure they are complete. Let the other person know the purpose of your call and when it is best to call back. If you call long-distance to ask for referrals, for a favor, or for help, and the other person is not available, never request a return call unless you specify it should be made collect. If you have difficulty understanding someone's name, say, "Would you please spell your name for me?" Never ask people if they "can" spell their name.

**Social skills are success skills**

Creating a professional image and exhibiting appropriate behavior is an ongoing process. The goal is to build quality relationships by creating a positive impression every time someone interacts with you. People with social savvy perform with confidence and style. They also attract loyal clients and good employees. This all has a positive impact on the bottom line.

Self-examination, mind-stretching, and risk-taking are all key to professional growth. There are many opportunities to develop and create a professional image. Just choose to do so. It pays.

— by Randi Marie Freidig, The Freidig Group, 2202 Fifth Avenue North, Seattle, Washington 98109, tel. (206) 284-3833
MARKETING THE CPA FIRM: A LOOK AT CLIENT NEWSLETTERS

Client newsletters are popular marketing tools for CPA firms. One reason is their versatility. For example, a CPA firm can use its newsletter to provide clients with useful business ideas, information about new tax laws, and to tell them about changes in accounting regulations. A newsletter is also an excellent way to announce the professional accomplishments of individual members of the firm, and to publicize the firm's contributions to the local community or the accounting profession. In addition, a newsletter can be used to remind clients about the various services the firm provides.

This article is based on the results of a survey of CPA firms' client newsletter practices. It contains guidelines for starting a newsletter, makes suggestions for improving an existing one, and includes several specific recommendations to help firms enhance their client newsletter as a marketing tool.

A mail survey of 100 CPA firms was used to determine the extent of client newsletter usage and to request a sample copy of a recent newsletter for further analysis. The response rate was 41 percent. The majority of respondents (71 percent), described their practices as single office, local CPA firms.

Client newsletters are regularly issued by 78 percent of the respondents. Of these firms, 56 percent prepare their own newsletter. The other firms rely exclusively on external newsletter services such as the CPA Client Bulletin which is available from the AICPA on a monthly basis. Only those newsletters prepared in-house by firms were studied further and form the basis of this article.

Designing a newsletter
The effectiveness of a CPA firm's newsletter depends on several factors, one of the most important being design. The primary goal should be a newsletter which grabs the client's attention and communicates the desired information. To do this, the newsletter must successfully compete with other demands on the client's time.

A well-designed client newsletter conveys a firm image of competence and professionalism. Although a variety of elements may comprise the design of an effective newsletter, some of the most important ones are format, color, headings, length, and content. Let's consider these five elements further based on the newsletters provided.

Format
Ideally, newsletters should retain a "letter" type of format to reinforce the client's perceptions of receiving timely, personalized information. For this reason, it is best to print the newsletter on size 8½" × 11" paper. This size specification was met by all of the client newsletters studied.

Arrangement is the other aspect of newsletter format; it refers to the use of columns to present information. Multiple columns are preferable to having type run straight across the page in single full-measure lines. They allow greater flexibility in presenting information and enhance readability by minimizing the number of characters per line. All of the CPA firms in this study use multiple-column arrangements for their newsletters, with 67 percent employing a two-column format and the remainder, three-columns. Fewer firms use the three-column format because they find it more difficult to work with due to space limitations and the need to maintain a balanced page.

Color
The effective use of color requires careful consideration about the print and paper. Aesthetically, the contrast of dark print on light paper is pleasing. Psychological tests show five combinations to be best in terms of legibility. Ranked in descending order, they are: (1) black print on yellow paper; (2) green print on white paper; (3) blue print on white paper; (4) white print on blue paper; (5) black print on white paper. In comparison, the color combinations used in the sample of CPA newsletters studied were as follows:

- Black print on white paper .......... 44%
- Black print on yellow paper ....... 22%
- Brown print on yellow paper ....... 17%
- Black print on gray paper ........... 11%
- Green print on green paper ........ 6%

There are other color combinations which can be used beside these examples. The key to effective use of color is good judgment and common sense.

Related to the color combination is the type of paper used. Clients like newsletters because they are brief and informal. Seventeen percent of the firm newsletters studied are printed on glossy, coated paper, however. Consequently, they are shifting away from an informal appearance toward a less desirable magazine look.

Headings
Good headings are essential for an effective newsletter. The major heading is the masthead containing
the newsletter title which appears at the top of the first page. Sometimes the title is presented as part of an eye-catching logo which clients can readily identify. In addition to the title, the masthead should also contain the name of the CPA firm, the volume and number of the issue, and a newsletter date (that is, month or quarter, and year). In this study, 82 percent of the firms provide a newsletter date in the masthead, but only 44 percent present volume and number information.

The firm address and phone number should also be displayed prominently. Only 44 percent of the firms studied present this information in the masthead, 39 percent present it on the last page and 11 percent show it on the bottom of the first page. Since a major reason for issuing client newsletters is to help the firm’s marketing efforts, it is recommended that the address and phone number be displayed in the masthead itself.

The other type of headings usually found in newsletters are article headings or subheadings. These headings classify each item, and, by print size, indicate their relative importance. A heading should initially attract attention, and then draw clients into reading the information.

Nearly all of the newsletters studied made satisfactory use of headings. One firm’s newsletter, however, contained a total of 12 different news items but used no headings or subheadings at all. Many clients would probably read no further than the first page before losing interest.

Length
Quick reading is essential, so client newsletters should not exceed six pages in length. Most newsletters studied were either four pages (39 percent) or six pages (28 percent). Other firms provide too much information and issue newsletters which are ineffective because they are too long. (Twenty-three percent of the newsletters are seven to twelve pages long.) When a newsletter exceeds four pages, most readers appreciate a short table of contents. This should be suitably labeled (e.g., "In This Issue," "Inside," etc.), appear on the first page, and contain a brief listing of the articles and corresponding page numbers. Of the newsletters studied, 33 percent included a table of contents.

Related to length is the frequency with which newsletters are issued. Fifty-six percent of the newsletters in this survey are published quarterly and 44 percent monthly. Therefore, to reduce the length of each quarterly issue, firms might consider switching to monthly publication. From a marketing standpoint, this might be preferable because it triples a firm’s exposure to clients.

Another useful technique for marketing with newsletters is to incorporate messages which promote the firm. For example, the ending paragraph of a newsletter article can include a sentence to remind the client of the CPA firm’s willingness to provide further assistance or advice concerning the matters discussed in the article. Alternatively, some firms present a brief message in a separate, but conspicuous part of the newsletter to explicitly announce the firm’s readiness to serve clients’ needs. Most firms do one or the other, but 22 percent of the newsletters studied did not contain any messages to encourage clients to contact the firm.

Content
While content varies, some items are fairly common to most newsletters. First, nearly all contained tax related information and financial planning ideas. Second, many featured highlights of recent accounting or reporting regulations. Third, some of the firms provided information about the achievements of their professional staff.

The many variations in content and emphasis possible for newsletters suggest that CPA firms need to be aware of their clients’ preferences. The best way to find out is to ask. Performed periodically, a reader feedback survey is an excellent source of information regarding the newsletter’s usefulness to clients.

Conclusion
Many CPA firms regularly issue newsletters to their clients. The ultimate test of a newsletter’s effectiveness as a marketing tool is whether clients are willing to spend time reading it. Winning their time is not easy, but the attention given to developing a well-designed newsletter can yield substantial benefits to a CPA firm.

—by Frank R. Urbancic, DBA, CPA, Department of Accounting, College of Business & Management Studies, University of South Alabama, Mobile, Alabama 36688
KEYS TO SUCCESSFUL SEMINARS

Well-executed seminars can be most effective marketing tools. They enable you to communicate your knowledge, demonstrate your creativity and ability, and build relationships that can lead to new or additional business.

But have you ever presented a seminar that seemed to go well but produced little or no result, or one that had a disappointingly low turnout, or one that suffered from poor presentations? Following are five keys to presenting successful seminars that can enhance your business development efforts. You may find them helpful.

Planning seminars
There are two primary elements to the planning of successful seminars: 1) selecting the right target audience and 2) covering all logistical bases. Over time, your seminars will be more successful if you target an audience that has the potential for producing profitable business for you. A group that has similarities to the top 20 percent of your client base would probably offer the best prospects for that.

Seemingly trivial details can make a difference between the success or failure of a seminar. There are so many logistical items to take care of that it is best to use a checklist to make sure nothing is overlooked. (See the exhibit on page 7 for some checklist suggestions.) Meet with staff after each seminar to determine which checklist items should be changed for the next program.

Select a topic that communicates "benefit"
People who attend your seminars have invested at least their time and expect some return on their investment. Other than promising to give a $100 bill to all who attend, or featuring a popular (and expensive) speaker, the seminar topics must clearly offer some benefit if attendance is to be satisfactory.

For example, seminars on, say, "The New Tax Act" or "Sales Force Automation" don't spell out any benefit for attendees, and the invitations to them aren't likely to have high impact. But more creative topics and titles, "20 Tax Reduction Strategies to Save You Thousands" or "Increase Your Sales by Improving Sales Force Productivity," for example, state possible benefits and certainly sound more enticing. These are points you might want to keep in mind before you finalize seminar topics.

Make your seminars great
Paul LeRoux, in Selling to a Group, says, "Successful client seminars walk a fine line between advice and entertainment." Every audience has its own characteristics. Presenters will relate to the audience better by focusing on attendees' common interests. The more the audience is involved, the better the presentation will be received.

Some of the ways good presenters get audience involvement is by asking people to stand, raise their hands, role play, or otherwise respond to questions. These presenters add to the credibility of what they are saying by demonstrating how current their information is. An example of this would be to hold up the latest issue of a publication when quoting from it.

Another way to make a presentation great is to try to communicate with the audience the same way you converse with good friends on a subject in which you are all interested. If there is a significant difference in the two approaches, change your prepared remarks and rehearse your presentation until you sound natural, personable, and enthusiastic.

Hold a dress rehearsal with all presenters just before the event to eliminate duplication, develop tight timing, and provide smooth transitions from one speaker to another. And keep in mind that while audiovisuals and handout materials can be useful on occasion, they might take the spotlight off the presenters. This will not further the purpose of the seminar.

Follow up on invitations
Whether or not an invitation was accepted, the seminar still offers opportunities for marketing interaction. Invited guests who were unable to attend can be sent copies of the seminar materials and told that someone will call specifically to discuss elements of the program with them. And firm staff should be prepared to make follow-up appointments with guests at the seminar.

A follow-up program does not need to be high pressure. If you simply call to ask what they enjoyed about the program, clients and prospects will be open to discussion if there is an interest on their part. Follow-up contacts are the biggest factor in whether or not a seminar is successful as a business development tool.

Seminars should be part of a marketing program
If you only hold one seminar every year or so, you will find it yields a low return. Not only that, you
Seminar Checklist

Planning
Check that:
☐ Room location has no distracting elements.
☐ Room size is appropriate.
☐ Seating arrangements permit interaction.
☐ Lighting is adequate and works properly.
☐ Audiovisual equipment is available.
☐ Refreshments will be available.
☐ All speakers will be available.
☐ Presentation topic offers benefits.

Administratation
☐ Prepare target audience invitation list.
☐ Prepare appropriate invitations.
☐ Mail invitations 2-4 weeks in advance.
☐ Issue news release 1-2 weeks in advance.
☐ Confirm attendance 3 days in advance.
☐ Prepare name tags.
☐ Prepare follow-up letters.
☐ Prepare all seminar materials.
☐ Rehearse presentations until satisfied.

Day of seminar
☐ Assess total attendance.
☐ Finalize refreshment details.
☐ Check all room arrangements.
☐ Check materials for completeness.
☐ Check all equipment.
☐ Take marketing materials to location.
☐ Have presenters on-site one hour before.
☐ Assign duties to firm personnel.
☐ Remind personnel to make appointments.

Day after seminar
☐ Prepare list of priority targets.
☐ Call high-priority prospects.
☐ Mail “thank you” letters to other attendees.
☐ Begin planning next program.

Two weeks after seminar
☐ Meet to review results of follow up.
☐ Make suggestions for improvement.

will find it is more difficult to present. The more
often you present seminars, the more proficient you
become at it and, usually, the better the audience
responds to them.

In many respects, the better response is because
you have learned to target your audience succinctly
and have honed your ability to communicate your
knowledge and demonstrate your firm’s capabilities
in certain service areas. As stated at the beginning
of this article, that is the purpose of a seminar. ☑

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SECTION 3—PAYING ATTENTION TO CLIENT SERVICE

The New Game—Client Service     January 1990 ........................................ 171
Assessing Client Satisfaction   February 1996 ........................................ 174
Questions for the Speaker       February 1996 ........................................ 175
THE NEW GAME—CLIENT SERVICE

The accounting profession has gone through significant changes over the past decade, and the pace of change is now accelerating so fast that it threatens to overwhelm even the most jaded observer. Keeping up with the changes is tough; deciphering what they may mean to the local practitioner in the future is even more difficult. One trend that I foresee in local practices is an emphasis on systematic, programmed client service.

When I speak of client service, I am not referring to an emphasis on maintaining product quality. Rather, I mean the conscious, psychological management of a client's perceptions in order to create predictable reactions. The resultant perceived value will, in turn, create greater client loyalty, higher billing rates and collections, and more client referrals.

Programmed client service is a must. Recent consolidations in U.S. industry, combined with a sagging economy, spell trouble for local practitioners. Large national CPA firms have also begun a major consolidation to mirror the one in industry. This isn't being done so they can expand their employment. It is so they can reduce it. A number of partners and managers will leave to start their own practices. The most likely result is a net increase in the number of local firms competing with each other.

A zero-sum game
If the size of the market remains constant while the number of local practitioners expands, one firm's new client gain may be another firm's loss. And because many firms are now marketing to some degree, it is quite possible that firms will gain new clients only to find that they have lost old clients in a net zero-sum game.

The survivors will be firms that are most adept at keeping their current base, expanding services to that base, and occasionally attracting new clients. To date, firms have simply tried to outmarket each other. In the future, the battle will be fought with client service systems, and marketing will play an important complementary role.

The trend to such systems can be seen in highly competitive service industries such as airlines, hotels, and restaurants. This has lead to increased business for firms implementing such systems. One major element that is intensifying the movement in this direction is the aging of the overall population. As this occurs, the emphasis changes from price to service and comfort. Through years of experience, the population now is generally better at discriminating between price and service.

A programmed client service system
A programmed client service system leaves nothing to chance. The aim is to assure the same psychological response by every client. Ideally, the firm's smallest client should have a perception of service equal to or better than a competitor's largest client, while no competitor could match the psychological comfort the firm provides its largest clients. Such results can only be accomplished through defined actions performed systematically at every level in the firm.

The key ingredients are scripting and polling. Scripting means knowing exactly what to say and when to say it. Polling means asking the right questions to steer the client's thinking toward a defined conclusion, either in action or thought. A programmed client service system combines the two approaches through a predetermined process to create an overall sense of care and well-being on the part of the client.

The Five-Star Client Service System
I refer to this system as the Five-Star Client Service System because it must do exactly what a five-star restaurant must do to be successful. A first-class restaurant gets more than a normal markup for its product. It wants to sell a full-course dinner and must rely on repeat business and on customer referrals. And finally, a five-star restaurant must collect its money in a timely fashion to stay in business.

The premise of the client service system is that the degree to which clients are satisfied is based mainly on personal relationships and the clients' perceptions of receiving quality service. CPA firm clients usually have no real way of measuring actual quality received unless something goes wrong or they are influenced by outside forces. A systematic approach to service is the best prevention against unwarranted negative influences.

A successful five-star restaurant's customer service system, for example, includes the following elements:

- A process for taking orders exactly.
- Contact with the customer during preparation.
- Ascertaining satisfaction during the meal.
- A method for recovering from mistakes.
- The offering of dessert.
A system for collecting payment in a timely manner.

To draw an analogy with client service, let’s look at these steps individually.

Taking the order
If a waiter takes an order incorrectly, the meal is usually a disaster, no matter what is done to rectify the situation. The same is true for CPAs. The process begins with taking the order in a way which prevents any misunderstanding and which puts the client at ease. This means not assuming anything, but finding out what the client is really interested in, be it information, service, price, or anything else. If you don’t find this out at the beginning, there is no way you can meet the client’s needs.

As mentioned earlier, the key ingredient to finding out the real needs—the hidden agenda—are scripting and polling. You really have to probe. The client’s main concern might be cost, for example. Once you have determined that, you spend the rest of the time showing the client what to do to help you provide the service at a certain price. Similarly, part of the process is making sure the client knows what you can and cannot do. If the client wants something you cannot do—completion by a certain date, for example—you need to know that at the start.

If there are misunderstandings at this stage, the relationship is off to a poor start. On the other hand, if the order is taken properly, with the right questions asked and the right statements made to put the client at ease, mistakes will be prevented. This will increase the profitability of the engagement, and enhance the client’s perception of the quality and value of the work performed.

Client contact during order processing
The waiter must check with customers while food is being prepared or they are apt to become annoyed. The same holds true for CPAs and clients. Too often, the firm takes the order, begins working, and fails to contact the client until the job is completed. The client is left alone too long and begins to suffer anxiety. A proper system of timely checking with clients can avoid this problem. Work performance can be enhanced, too, because of the opportunity to make sure the original order was taken correctly. Checking with clients also provides opportunities to offer more services.

Ascertaining satisfaction on delivery
When a waiter delivers an order, he or she immediately inquires as to customer satisfaction. This is the moment to take care of any displeasure. Unfortunately, most CPAs fail to inquire about the client’s feelings at this moment because too often they are afraid of the answer. If the job was prepared as ordered, and the CPA checked with the client during its preparation, then any problem is likely to be the client’s fault. The client usually understands this and is willing to pay for the correction.

Recovery from mistakes
Clients understand that mistakes can be made. How the people recover from them is what makes the difference. Failure to do so properly means a lost client and a spoiled reputation. A well-handled recovery, though, can have a positive impact by creating loyal clients who tell others about how well you handled their problems.

Offering dessert
Dessert and after-dinner drinks are where the restaurant makes its most money. The same is true in providing professional services. Price sensitivity and other factors affecting traditional services may mean that providing additional ones which are not price sensitive, represent the only chance to make the engagement profitable.

The key is to pre-sell dessert during the engagement. Restaurants have found they can increase dessert sales by mentioning them while describing the menu, by running lavish-looking dessert trays along the aisles during the meal, and finally, by making elaborate presentations at the table.

The same process should be followed by CPA firms. Attempting to sell additional services during off-peak times of the year is often ineffective because clients become defensive. They feel that they are being “sold.” Instead, start offering dessert when taking the order, continue during processing, and make the actual sale when the product is delivered.

Presenting and collecting the check
After dessert, when the meal is finished, the waiter presents the check to the customer and collects the money. At a five-star restaurant, the service is so good that its patrons wouldn’t think of not paying their bills. In CPA firms, by contrast, many collection problems are a result of clients trying to get even for poor service. By raising your perceived value to clients, it is possible not only to raise fees, but also to increase collections. The high standard of service, then, gives the client no reason not to pay.
The benefits are all yours
As well as increased billing rates and faster collections, a well-defined and orchestrated client-service system, can result in other benefits. Satisfied clients are more apt to make referrals, and the possibilities of errors and legal conflict should be reduced because of the good working relationships with clients. In short, it may make the difference between success and failure of firms in the future. —by Timothy J. Beauchemin, CPA, Enterprise 2000, 1600 Smith, Suite 4250, Houston, Texas 77002, tel. (713) 951-7300
ASSESSING CLIENT SATISFACTION

Like it or not, our performances as professionals are measured by our clients. Studies show that what clients really measure is the effort involved. They naturally expect results. It follows that the key to the satisfactory delivery of effort is to manage clients’ expectations.

For example, the client who asks us to handle a simple, routine matter and is told, “no problem,” might be justified in wondering why the bill is more than “no problem” would seem to warrant; or why the timeframe is longer than “no problem” indicated. When we think about complaints clients commonly bring against professionals, we realize these frequently concern matters related to expectation management.

The way to successfully manage clients’ expectations is to ensure there are no surprises for the clients. Clients should have a sense of the procedures necessary, the time involved, the level of attention the matter will receive, and should be kept aware of how a given situation is progressing.

If we accept the thesis that client satisfaction depends on the relationship between the client’s original expectations regarding our performance and our actual performance, it follows that the more we participate in the shaping of reasonable expectations that we can meet or even surpass, the better will be the client’s perception of our performance.

To manage expectations, we need to
☐ Test the client’s desire and commitment to proceed from overview to resolution of the problem.
☐ Describe in detail the steps involved in solving the problem. To make sure the client understands nature of the effort required, some practitioners have gone to the extent of preparing flowcharts of the sequential steps and writing booklets containing answers to commonly asked questions.

☐ Explain the complexity of obstacles that may have to be overcome. A matter may seem routine to the CPA, who may then understate its difficulty. This invites fee resistance. When you identify potential hurdles, clients are more appreciative of the nature of tasks to be performed.

☐ Convey the timeframes for the various steps involved. Time is clearly a critical aspect in the measurement of performance. Making sure the client knows the reasons for the time involved will reduce anxiety and the need for the client to “check up on things.”

☐ Confirm that the client correctly understands the value of the engagement, the steps involved, the complexity of obstacles, and the timeframe for finding a solution to the problem. Invite questions and comments throughout the engagement to show your concern and respect.

Assessing client satisfaction may be accomplished via personal visits, questionnaires, correspondence, and third-party inquiries. Whatever the method, it is important to ascertain what the client’s original expectations were, and to ask the client to compare these with the actual experience. Then you should follow up to deal with any negative contrasts and demonstrate a commitment to achieving positive contrasts in the future by surpassing the client’s expectations.

—by Gerald A. Riskin and Patrick J. McKenna, The Edge Group, Box 700, 21 Standard Life Center, 10405 Jasper Avenue, Edmonton, Alberta, Canada C5J3S2, tel. and FAX (800) 944-3343

February 1996
QUESTIONS FOR THE SPEAKER

What is your opinion of client satisfaction surveys?
Lucy R. Carter, a Goodlettsville, Tennessee, practitioner, includes a satisfaction survey with every tax return that goes to a client. She says, "We started doing this last year in order to find out what clients think we are doing well and vice versa."

Ms. Carter says there are two questions at the bottom of the survey—"Would you consider referring us to someone else?" and "If so, to whom would you refer us?" She says several clients have responded "Yes we would. By the way, call so and so company." So the survey is not only eliciting valuable feedback but prodding clients into referrals, too.

Ms. Carter says some responses are signed, while others are anonymous. This does not seem to make any difference in whether the responses contain glowing remarks or complaints, however.

Stephen Weinstein, CPA, a practice management consultant in Stony Creek, Connecticut, says some firms conduct a satisfaction review at a meeting with the client after an engagement. He says this takes time but is an excellent way to obtain meaningful feedback.

Mr. Weinstein says a mail survey will give you an idea of how satisfied clients are with your services, but you can only expect 3 percent to 4 percent of the clients surveyed to respond. He says that no matter which method of conducting client satisfaction surveys you use, make sure you follow up. You could lose more than you gained, if not.
### Section 4—Developing Networks, Referrals, and Relationships

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GET BETTER RESULTS FROM YOUR NETWORKING EFFORTS

People network by joining clubs, church groups and community organizations, going to lunch with friends, attending conferences, joining industry associations, and by going to alumni dinners and reunions—to name just a few methods. But what they obtain in return for the time and effort expended, whether networking is worth the investment, and what could be done to improve the results are questions requiring some consideration.

Effective networking requires spending significant time developing new contacts and managing old ones. Networking is not effective for people who just show up at meetings two minutes before the start, never make a contribution, and never spend the time needed to get to know people personally. Networking success cannot be measured by the number of business cards handed out.

Those who network properly receive many benefits. Networking serves as a source of information, new ideas, referrals, leads, new staff, market research, and new product suggestions. It is also a way to qualify or dispel rumors. On a personal level, networking can be a source of emotional support or career advice. It can be used to find people who are objective about business decisions, and can be the source of long-term relationships. The possibilities are endless.

Making your network work
Because networks improve over time, networking is a long-term strategy. For a network to be successful, certain rules must be followed. For example,

□ Don’t wait until you desperately need a network to begin developing one. Networks are based on trust, respect, and personal chemistry, and take time to develop.

□ Become active in organizations—don’t just grace everyone with your presence. Be selective when choosing a group to join. Then, participate in its activities. Become involved. You get back only as much as you give—there are no shortcuts.

□ Remember that seminars, conferences, and association committee meetings are not a substitute for one-on-one meetings. Group meetings intimidate some network members who may suppress their opinions, while others may dominate the discussion. In addition, set agendas and the presence of many people tend to inhibit the discussion of personal situations.

□ Keep in mind that successful networks change and evolve, expand and contract. They must be nurtured continually, and you must be creative about keeping in touch with the members.

Rules for successful networking
 Use caution at the outset. You may need to make the first move to establish a relationship, but do not make your initial gesture a request. Sending out promotional literature as a first gesture, for example, is not networking; it is selling. Learn the personal needs of your network’s members, not just their strengths. If they can’t use the network to their benefit, they will be less likely to participate. To ensure that you do something to help meet their needs, listen to what they say from their perspectives. Avoid filtering the information through your biases.

Be prepared. Remember, you won’t be able to help someone in your network if you have information that can solve his or her problem, but can’t find it. Part of your networking investment is to organize yourself so you can help others. Use cards or a computer listing of individuals in your network to list information they may need.

Networking can be an enriching experience

Find the right approach. When you need your network’s assistance, decide who to approach with your request, and how to make the request. When you know what you need, it is easier to decide who can help. If you have time, you can ask several network members for help. Don’t simply seek the obvious; look for different answers or perspectives on the same issue. Some writers, for example, have several people read their manuscripts—an expert in the subject area, an editor who is an expert in grammar and style, someone outside the field who can judge if the presentation is clear, someone from the target audience who can look for information of interest, and someone from the writer’s own organization who is aware of political sensitivity.

Avoid mistakes. Make certain you don’t become an unpopular member of a network. Although people generally like helping others and offering advice, don’t put them under pressure and always carefully assess their abilities. If you ask for help from someone who can’t oblige, you may cause
Networking

Use other people's time wisely. Know what you want before making a request; don't force the person you call to help you discover your needs. Such calls can be time-consuming.

Evaluate the reasonableness of your request. Determine whether you are asking people to stick their necks out, whether it will take time and cost money, and whether you would do the same for them if the tables were turned.

Respect other people's priorities. Your request is a priority for you, and may not seem to be a major undertaking. But if the person you ask for help has a full plate at that time, he or she may not be able to help.

Make specific requests. If you are vague, you may get something you don't need. When you ask for help, explain why you need it. Ask how the other person would approach your problem. This may result in a fresh perspective or an approach to the problem from an angle you haven't explored. Also, explain what you've done to date, so that no one wastes time duplicating someone else's effort.

Reciprocate. If someone makes a request that you can't fulfill, try to recommend someone who might be able to.

Networking protocol

Networking should not be a haphazard, on-and-off affair. Successful networking requires following protocol. Keep these ideas handy for review.

- Networking must be a give-and-take relationship. If you do too much for someone and never accept anything in return, you make the recipient hesitant to ask for more and imply he or she has nothing to offer.
- Give and take does not mean one-for-one reciprocity. You should not expect a favor just because you have performed one. If you become known as someone who keeps score or is looking for quid pro quo, your future networking will be harder.
- When you do a favor, don't grandstand. Do it because you want to help, or else don't do it. The fact that you expect a return should remain unstated.

- Providing value in a relationship means giving what is asked for, then offering something additional when you can. Do not, however, give it without asking if it will be helpful. Give what you know the recipient wants, not what you think he should have.
- Don't provide assistance that hasn't been requested and don't push yourself on people.
- When answering a question, don't tell everything you know about the subject, or send someone volumes of information when a summary article will suffice. Remember, information overload is bad business and quality is preferable to quantity.
- Don't make promises you can't keep. It is better to say you can't do something immediately, so the person isn't depending on you, than to break a promise when the other person can't do anything about it.
- Make sure your calls are convenient. Your contact may be in a meeting or may be working on a critical project with a tight deadline. Remember, too, some people prefer to be called at the office, others at home. Be aware of their preferences.
- Don't rely too heavily on one person. A relationship can be destroyed by depending too much on and taking advantage of one person.
- Be considerate when making requests. Make sure your requests are reasonable in terms of the time and cost to the other person and the type and amount of information desired.
- Don't judge someone else's request. What might seem trivial to you may be a priority to others for reasons they are hesitant to reveal.

Incorporating these ideas into your networking should result in a better return for your efforts, and enable you to become more productive in helping others. Through effective networking, you can develop new relationships, opportunities, and resources, and meet new people who can learn from you and from whom you can learn. It can be an enriching experience.

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SOCIALS: GOOD NETWORKING OPPORTUNITIES

One way to increase the number of referrals you receive is to arrange a social activity with other referring organizations. For a CPA firm, such arrangements would be made with banks, law firms, and other professional service organizations.

While "socials" provide opportunities to meet key players of the various organizations and the chance to learn more about each other's capabilities and areas of focus, the primary purpose is to allow individuals with certain affinities to meet one another in order to develop ongoing relationships. This might seem rather obvious, but, too often, meaningful follow-up just never happens. Following are some steps you might take to make your socials more successful:

- Obtain lists from the other participating organizations, showing who will be attending, their respective positions and responsibilities in those firms, and their areas of expertise.
- Distribute the attendance list to the individuals in your firm who will be participating, and suggest preliminary pairings based on criteria such as position in the firm, same clients, common areas of expertise and specialization, and similar ages and personal interests.
- Remind your participants that the basic objective is to make initial contacts that will develop into ongoing relationships.
- During the social, your representatives should listen for opportunities that will allow your firm to both offer help to and receive help from other participants.

□ Shortly after the social, your participants should meet to share information and decide who is best suited to cultivate relationships with specific individuals from the other organizations.

□ Set guidelines for follow-up activities. For example, you might require participants to meet with their counterparts at the other organizations during the two weeks following the event, and to maintain regular contact thereafter.

□ As a gesture of goodwill, be prepared to make worthwhile referrals to the other organizations as soon as possible.

When you take actions such as those described above, your socials can become productive, low-cost marketing initiatives. Furthermore, these steps should make socials particularly effective in situations where your firm has limited or no personal contacts in other referring organizations. □

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SECRETS FOR INCREASING REFERRAL BUSINESS

Roughly one-half of your new business should come from present clients, either when they need help with new problems or when they refer you to their friends, families, and associates. Referral sources who are not your clients should account for at least another quarter of your new business.

Success in business today depends on partnerships, on people working together to build business. It therefore behooves you to identify your most promising referral sources and make them an important part of your life. When you do, you will discover new marketing opportunities that you might never have pursued on your own. As a marketing director, I am often asked the following questions about cultivating referral sources.

**How do I get to know good referral sources?**

First, you need to determine what types of referral sources would be most valuable to your firm. If you specialize in certain niche areas, for example, you will wish to meet people with similar interests. This involves attending their industry functions and spending time where they gather. It means taking on assignments that will put you in touch with other professionals who share your enthusiasm for certain areas of business, and understanding and capitalizing on industry trends.

Top referral sources are often active in the community. They frequently receive publicity in the business sections of local newspapers, or you might come across them serving on high-profile boards of directors or giving speeches to prominent business groups.

To get to know such people, some of the more confident networkers simply write a letter or make a phone call and ask for a meeting. Many people are flattered by and receptive to this direct approach. If you decide to make a cold call to introduce yourself, mention any mutual friends and business associates you have. This often makes people more relaxed and friendly.

The easiest way to get to know more referral sources is simply to ask business colleagues to make an introduction over lunch or in some other informal setting. Meeting new people can be orchestrated in a group situation as well.

For example, the partners in your firm could host a late-afternoon “get-acquainted” session with four or five members of a local bank. After snacks and refreshments, each group could take a few moments to give an overview of its organization, followed by people sharing special interest areas. Usually, several participants will find common ground and a real potential for referring business back and forth.

**How do I organize my list of referral sources?**

One of the best ways to organize your growing list of referral sources is to group them by category, such as industry, association, and so on. You should then place two or three names under each heading. You don’t need many names because the idea is to cultivate satisfying business relationships with a few really good referral sources.

The next step is to see whether any category on your list seems under-represented or might be beefed up. If this is the case, get in touch with associates who have connections in those areas and ask them to arrange introductions.

Expect the names on your list to be constantly changing. Relationships with referral sources are dynamic. As you meet new people, you will discover new opportunities for business development, and it will be readily apparent where you need to direct your attention.

**How can I keep my referral sources happy?**

Obviously, you should swing business their way whenever possible. If you don’t have an immediate opportunity to do so, be creative. There are many ways to keep your relationships with referral sources satisfying.

Your value as a CPA is based on your specialized knowledge. Share this knowledge whenever possible to improve someone else’s situation. When you make a special effort to help someone with a problem, this also gives you a chance to show your expertise and increases that person’s confidence in referring you to others.

If you become involved in an exciting marketing program, look for ways to include your referral sources. For example, if your firm is holding a seminar on a particular topic, invite qualified referral sources to speak on certain elements of it. Similarly, if you are interviewed by a local business reporter, tell the reporter about someone in your network who also has knowledge about the subject at hand. There really is no limit to the number of things you can do to let your referral sources know they are important to you.

The fastest way to kill referrals is to lower your
service standards. If referral sources hear from clients or others that you deliver less-than-top-notch service, they will hesitate or refuse to refer business your way. In today's competitive business environment, excellence and professionalism are expected. CPAs who cultivate happy clients and satisfying relationships with other professionals will ultimately win the most referrals from the business community.

What reason do I give for getting in touch with referral sources?
If your interaction with referral sources is limited to a quick phone call once a quarter, it is time to examine the relationship. You'll get much more out of a relationship that is based on common interests and the pleasure of working together. Sending business back and forth will follow naturally.

Keep your list of referral sources handy and review it once a month. Find ways to weave the people on the list into your work and leisure routine. If you throw a Super Bowl party, for example, see who on the list might like to be invited, and try to draw from your network when selecting a golf or tennis partner.

Send your firm's newsletter to the people on your list with a personal note attached. And if your firm has produced some exciting marketing materials, share them. If referral sources recognize that you are an active marketer, they are more likely to value the relationship.

Another reason for keeping in touch is to make helpful introductions—introducing a banker to an attorney with similar interests, for example. Anything you can do to help your referral sources become more effective in their work or to expand their network qualifies as a good reason for keeping in touch with them.

Some of the most successful business developers I have met regularly gain new business from referrals that are based on quality relationships with the right sources. You, too, can make a dramatic impact on your firm's bottom line by identifying and cultivating the right referral sources. Once you have honed your list to a select few, find creative and fun ways to include them in your business and leisure activities. 

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**DEVELOP REFERRALS NATURALLY**

One of the most profitable marketing activities in which you can engage is to get to know the lawyers, bankers, insurance brokers, and other service providers to your clients. These professionals are naturally inclined to helping build their clients' businesses, and that means they are interested in having meetings with you to generate ideas. During these sessions, business relationships develop that can lead to your obtaining new business. Following are three ways to stimulate referrals.

**Ask for referrals.** Practitioners sometimes worry about offending good clients by asking them for referrals. Generally, however, people like to do something for those they respect and trust. Good clients are no exception and would be pleased to refer new business. Sometimes clients and potential referral sources are not aware you are looking for more business. Let them know by asking for referrals.

**Enhance others' revenue.** As your business relationships develop with other service providers, find ways to boost their revenue. Send them referrals, include them as team members in activities affecting mutual clients, and look for reciprocal business opportunities.

**Stay in contact.** You may find it difficult to ask for referrals, and opportunities to enhance the revenue of other service providers may be limited, but you can stay in contact. Attorneys tell me they send most referrals to the CPA they think of first.

The person they think of first is usually the person who stays in contact through various means. This includes correspondence and telephone calls, sending newsletters, newspaper clippings, and articles of interest, issuing invitations to appropriate seminars, and making personal visits.

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TURNING LEADS INTO CLIENTS

Marketing programs create leads. But leads do not convert to new business without management and sales. Following are a few conversion ideas.

Take action. Not following up on a lead immediately causes potential sales conversion to decline dramatically. Prospects think you are not interested in serving them, and the time you take is viewed as an indication of your response time if the person were a client. So, take action quickly.

Focus on referrals. Referred leads are the most valuable. When you receive a referred lead, the selling has been done by your source. If you act quickly, it will reflect well on your source, who will then be encouraged to send you more referrals.

Evaluate the lead. Some follow-up action on every lead is a good idea, but evaluating the leads first will enable you to follow up more quickly with the better prospects. Ask about their problems and needs, determine their ability to pay your fees, and find out who is in a position to influence the decision.

Have a follow-up plan. Set aside a definite time for contacting and courting leads. If you are currently booked, send a letter or call the lead to set a specific time to meet. Unless you do this, the value of leads can dissipate rapidly.

Add leads’ names to your mailing list. Every firm should have a marketing database, and when you obtain a lead, pertinent information should be recorded in it. Type “A” prospects should receive regular calls and personal attention. Type “C” prospects can be sent letters and mailings.

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PRACTICE DEVELOPMENT BEGINS WITH RELATIONSHIPS

In today's competitive marketplace, CPA firms across the country are trying to find new ways to expand their revenue bases. Many CPAs continue with traditional practice development methods, such as making speeches, having lunch with prospective clients and referral sources, and publishing and distributing newsletters. Others employ newer techniques, such as engaging in direct mail or advertising campaigns, or trying to attract new clients through the development of additional service capabilities. What is frequently forgotten, however, is that the best source of additional revenue is often right in firms' own backyards. It is their present clients.

Sometimes, CPAs render the same services to their clients year after year, but little new business results, and referrals only seem to trickle in. They wonder why this is, as their relationship with many of these clients is well established and appears to be sound. Perhaps the reason is that they really don't have a relationship with these clients at all. Perhaps they don't know the clients as well as they think they do.

You are probably thinking to yourself that you certainly know your clients and have a good relationship with them. But do you? Ask yourself the following questions about each of your clients:

☐ Do I really understand how the client's business earns revenue?
☐ Do I really understand how the client's business operates on a daily basis?
☐ Do I really have in-depth knowledge of the client's industry?
☐ If there is a change in the client's industry (regulatory, economic, etc.), do I really know what impact this will have on the client's business?
☐ Do I really know how much time I spend with each client?

If you cannot answer "Yes, I do" to these questions, you do not have a relationship with your clients. If you don't have a relationship with a client, how can you identify opportunities to provide extra services? And if you don't have a relationship with a client, do you really expect that client to make referrals to you?

Here's another question. Why expend energy trying to attract new clients when you can generate additional services for and revenues from present clients? All it takes is for you to restructure the relationship you have with them.

You can begin the restructuring process by simply spending more time with clients. CPAs often feel more comfortable at their desks, but this activity does not build relationships with clients. Clients want your frequent attention, not just to hear from you once or twice a year. Make an effort to learn more about each client, the client's business, and the industry in which the business operates. Listen to the client, find out what services the client really needs and wants, and create those service capabilities within your firm. Such actions will not only lead to more service opportunities with present clients, but they will also strengthen your relationships with those clients and make them enthusiastic about referring business to you.

While developing solid relationships with clients is undoubtedly time consuming, it is probably the quickest way to expand your revenue base and the best way to retain clients. Saying you are too busy to spend the time will please no one but your competition. By not spending time with clients and really getting to know them, you risk not only losing revenue-enhancing opportunities, but clients as well. ☐

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BECOME A GOOD BUSINESS GENERATOR

According to a Harvard Business School study, the best business generators share certain characteristics, most of which are the result of training and environment, not genetics. It follows that CPAs who would like to generate more business can improve their skills through study, practice, and dedication. If you are such a CPA, evaluate yourself in the following areas and commit to a self-improvement program to correct weaknesses. (Ask your partners to do the same.)

Willingness to spend time building good relationships. People usually prefer to conduct their business with individuals they like and trust. Are you willing to meet prospects and take the time to develop an amiable relationship? Are you willing to build trust by taking positions that might be unpopular but which are in the client’s best long-term interest?

Acceptance of responsibility for results. The best new business generators take full responsibility for their results. They don’t blame others or make excuses if they fail to win a new account. Instead, they work harder at turning the negatives of a given situation to their advantage. Are you willing to accept full responsibility for your results?

Above-average willpower and ambition. Any person who has passed the CPA examination has demonstrated willpower and ambition. The Harvard study concluded that self-discipline is key to success in sales. Would you be tempted to give up if your efforts to win a new account are rebuffed? Or would you persist toward your goals?

Ability to approach strangers. Everyone engaged in selling a product or service experiences some trepidation about approaching people with whom they have no prior business dealings. The best business generators train themselves to overcome such nervousness. Are you able to approach strangers to talk about your firm’s capabilities?

High level of empathy. Good business generators can put themselves in a client’s or prospect’s shoes to the extent of fully understanding their needs and concerns and responding appropriately. Do you have that level of empathy?

How do you rate as a good business generator? If not as well as you would like, don’t be discouraged. Remember, it is a skill that can be learned and cultivated through constant practice. In the final analysis, it is this skill plus personal effort and initiative that leads to a thriving practice.

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