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FIRST STEPS TO
PRACTICE
EXCELLENCE
& PROFITABILITY

accountingWEB

PRACTICE PROFITABILITY GUIDE 2016

PRACTICAL TIPS AND HANDS-ON ADVICE TO HELP GROW A MORE PROFITABLE PRACTICE

Contents

Introduction

Whether you want to expand your services or target clients more effectively, the 2016 Practice Profitability Guide provides a wealth of practical advice.

This guide presents short, well-argued articles from some of the leading thinkers in the profession, backed with simple, useful suggestions that you can put to work right away in your firm.

AccountingWEB continues to help accountants grapple with some of the challenges highlighted in the chapters of this guide, shining a light on referrals, marketing, outsourcing, pricing, and the cloud – all of which can help accountants build more successful and profitable practices.

Whether you're a sole practitioner or an established multipartner business, the 2016 Practice Profitability Guide offers a variety of tools, advice, and best practices designed to help you and your firm excel and grow.

Andy North,
Publisher
AccountingWEB
www.accountingweb.com

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Practical Tips on How to Improve Gross Margin

by Finola McManus

Finola McManus outlines the "magic 13" steps that will guarantee a rapid increase in gross margin and profitability.

1. Many practitioners measure gross margin in total. Drill down by client and identify which clients you make a strong margin on and which are loss leaders. A successful and progressive firm aims to achieve more than 70 percent overall gross margin; however, many firms achieve more than 80 percent.

2. All top practices now work on fixed fees with clear systems for charging for extra work. Pricing should be based on what the standard of information is going to be when you start a job. Be upfront about how you will charge extra if you need to do more than you originally quoted for.

3. Work in progress is a nightmare for practitioners. Be brave and take a hard look at what can be billed out and recovered. Many do this and are shocked by the resultant true gross margin. Top practices have negative work in progress and healthy cash flows achieved by accurate pricing systems and fixed-fee agreements.

4. Many partners in smaller practices do technical and compliance work themselves and do not record or measure time accurately. You must do this to ensure a true gross margin measurement. When the time comes to sell or plan your succession, any incoming partner or buyer will look at this.

5. Production systems are key to efficiency and optimal gross margin. Money is lost with jobs being "picked up and put down." You must have systems in place to check records, budgeting, planning, time spent meeting with clients, and finalization. Set a monthly billing target for the year ahead.

6. No job can ever be started without a budget being documented and agreed upon. Avoid the pitfall of letting inexperienced staff set a budget that simply equals the annual fee charged. The total fee will no doubt include additional services. The budget should be split three ways between planning, doing, and completion.

7. Even the smallest job needs to be planned. This ensures the person doing the job is clear about what's required and how to approach the task. Refer to the previous year and see what problems arose to ensure they're not repeated.

8. Budget and measure this training separately. If a job overruns, it is because of two simple reasons: lack of experience and/or wrong fee being charged. Either way, you must be in control of measuring and monitoring these two key drivers.

"Top practices have negative work in progress and healthy cash flows achieved by accurate pricing systems and fixed-fee agreements."

9. Proper planning and checking in with staff about how the job is going compared to budget allows you to call the client at the first opportunity a problem arises. This increases the level of client service delivered by being transparent and proactive. Trying to agree on extra fees after the event is usually a waste of time.

10. Mistakes happen. The key is to learn, change your systems, and make sure they are not repeated.

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11. Training your team is costly. However, if you are employing inexperienced people, you have a duty to invest. You need to allow for lead time, cost of training, and be diligent in measuring return on investment (ROI). Action has to be taken promptly where there isn't an acceptable ROI.

> **"Proper planning and checking in with staff about how the job is going compared to budget allows you to call the client at the first opportunity a problem arises."**

12. Work planners come in all forms – from bespoke software to Excel spreadsheets. Use what is right for your firm.

13. Many practitioners find "time and motion" studies as part of an employee's career development review valuable. Agree on working hours available and strip out nonchargeable time. Document this on your planner and have a realistic picture of available production and recoverable time.

Essential checklist

- Start with knowing existing gross margin and identify which clients return higher margins and which are the lower contributors.
- Is your pricing "right?"
- Review and clear out old and irrecoverable "work in progress" that may be "enhancing" what you think your current gross margin is.
- Where partners spend time on compliance work, ensure time is booked and reflected in a true gross margin measurement.
- Do you have production systems, and how do you monitor them?
- Budgets for all jobs.
- Planning on all jobs.
- Allow for reasonable training time.
- Manage overruns in real time. Talk to clients at the earliest opportunity where job is taking longer than budgeted and agree on extra fee.
- Learn from mistakes so they don't happen again.
- Invest in training time and monitor results.
- Use a work planner to drive efficient production systems.
- Perform a "time and motion" study with individual staff members to agree on available chargeable time and work production rate.

Networking and How to Win New Clients

by Heather Townsend

Networking is purported to be the best way for accountants to win new clients. But it can also be the biggest waste of their time. Heather Townsend explains how to guarantee that your networking activity produces results.

1. Get Specific to Stand Out

Far too often, accountants go networking looking for any clients with a tax return and a pulse. Unfortunately, all of your peers are looking for local small and medium-sized businesses, too. If you are going to stand out in the mind of an introducer, such as a bank, you need to have something special or different about you (i.e., a good reason for them to give you the referral). This may be a specialization in a particular type of business, person, or even software.

2. Be Fussy

Particularly in the early days of building your practice, it can be very tempting to attend even the smallest community event to build your profile. This can lead to a huge amount of wasted networking breakfasts, lunches, and coffees as you do a diligent job in collecting contacts. Before you agree to attend an event, take the time to ask yourself whether this event or person is going to be able to help you win a new client? If not, decline the opportunity.

3. Nurture Relationships with Your A-listers

There are always going to be a handful of people who will be responsible for more than 80 percent of your referrals. I like to call these your A-listers. They may be the usual suspects, such as bank managers and lawyers. However, if you have a specific target audience, such as coaches, trainers, speakers, and consultants, there will be other well-placed and potentially better introducers. These introducers have the benefit that your competitors will not constantly be targeting them.

4. Don't Neglect Your Online Footprint

Most potential clients now meet you first online before they meet you in the flesh. Therefore, if you fail to have an inviting website and approachable LinkedIn profile, you will be missing out on referrals. In fact, the Hinge Research Institute found that 80 percent of potential clients will check out your website, and nearly 50 percent will look at your LinkedIn profile.

> **"Your online footprint needs to strengthen the 'claims' that your introducers will be making on your behalf."**

Your online footprint needs to strengthen the "claims" that your introducers will be making on your behalf. For example, if they say you are a specialist in working with professional service firms and you use Xero, then your website needs to clearly articulate this.

5. Be Proactive

One of the best ways to generate referrals is to regularly give referrals or mutually beneficial introductions to your clients and key contacts. They will naturally want to reciprocate.

6. Collaborate

The most powerful way to generate new business via your network is to run joint marketing campaigns with A-listers in your network. For example, could you present a joint seminar with one of your introducers?

7. Don't Neglect Your Clients

Most accountants know that their best source of new work is always going to be their current client base. However, the really savvy accountants know that if your clients become your No. 1 advocate, you may never need to eat another networking breakfast again.

The best way to do this is by prioritizing staying in touch and nurturing your existing clients, so you always stay top-of-mind.

Networking and How to Win New Clients

by Heather Townsend

Resource box

Great websites:

- **Business Networking**: Networking expertise to help you grow your business.
- **Andy Lopata**: Connecting is not enough.
- **The Go-To-Expert**: Networking for success.

Great books:

- "Recommended: How to Sell Through Networking and Referrals Recommended" by Andy Lopata
- "Networking Like a Pro: Turning Contacts Into Connections" by Ivan Misner
- "FT Guide to Business Networking: How to Use the Power of Online and Offline Networking for Business Success" by Heather Townsend
- "The Go-to Expert: How to Grow Your Reputation, Differentiate Yourself from the Competition and Win New Business" by Heather Townsend and Jon Baker
- "Brilliant Networking: What the Best Networkers Know, Say and Do" by Steven D'Souza
- "The Unnatural Networker: How anyone can succeed at networking" by Charlie Lawson

Great networking groups for accountants:

- **BNI** : Local business global network.
- **AICPA Young CPA Network**: Community in which young and aspiring CPAs can seek answers and advice from peers.
- **LeTip International**: Professional business leads organization.
- **American Business Women's Association**: National organization established for working women and women business owners.

MORE INSIGHT INTO

Networking and How to Win New Clients

Roger Knecht, President
Universal Accounting

An effective marketing program for every accounting firm will include networking as Heather Townsend outlined. In addition I would also add the ideal way you can stand out from your competition:

Become your clients' Profit & Growth Expert. A Profit and Growth Expert uses financial data to analyze a business's fiscal standing, sharing that analysis with their clients in a timely manner who then use it to make more profitable decisions. A certified Value Builder™ & Profit and Growth Expert can be key to the success of the business because they are proactive CPA's who realize the information a business generates is crucial.

Being more for your clients (over delivering) is fundamental to business success and growth. Accountants can be key to helping their clients attain that level of control, but without the right support, tools and the appropriate data it can be daunting.

Since 1979, Universal Accounting has helped thousands of firms become proactive with the services they offer their clients, allowing the CPAs to do their best beyond just bookkeeping. Often accounting is perceived as the work of a historian. Recording the past and painting the picture of what was. But with your experience as CPA's you have the opportunity to do much more.

We are committed to helping you provide the highest quality of Business Advice & Coaching. Our Value-Growth program & coaching is geared to helping you help your clients increase revenues, profit and the value of the business.

What now:

- Start and Build Your Successful Accounting Practice
- Become a Profit & Growth Expert for your clients as a certified Value Builder™
- Use BizBench to attract & retain new clients while generating more revenue

Roger Knecht is a speaker, author, and business value builder who works with business owners, presidents and executives to increase the financial value of the company using proven strategies, processes, and procedures to build real worth within the business while also increasing profit margins and net income.

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Practice Strategy: Segmenting and Managing Your Client Base

by Mark Lee

The 80:20 rule suggests that many practices make 80 percent of their profits from only 20 percent of their client base. Equally, 80 percent of the grief, problems, and complaints come from up to 20 percent of the clients. Mark Lee takes a look at how to segment and manage your client base.

Although many people have heard of the 80:20 rule (also known as the Pareto principle), very few accountants consciously think about how applying the rule could help them and their clients.

The percentages are not fixed; they are simply indicative of the fact that when you examine what is going on, you will often find that a small proportion of your activities have a disproportionate impact as compared with all of the others.

One popular application of the 80:20 rule is to segment your client base, and there are various ways you can do this. One of the simplest is to first identify your A-list clients.

A-listers

A-list clients are the ones whom you intend to focus more attention. You will make time to call or visit them regularly. Depending on your practice and your client base, this might mean quarterly, monthly, or even weekly. Once you have identified your A-list clients and started to focus your attention on them, the more likely you are to increase your profits.

Typically, clients who have more frequent contact with their accountants are more successful and provide increased billing opportunities. Rather than overtly look for these, I suggest you focus simply on finding ways to help your A-list clients. Billable work opportunities will invariably follow.

D-listers

Before you start to worry about B-list and C-list clients, I recommend you identify your D-listers. These are the ones who, in an ideal world, you would dump. But perhaps you feel that you cannot afford to lose a chunk of fees, even though you don't like these particular clients.

If this is the case, then try this: Identify which client you would most like to stop having to deal with. Remind yourself why and focus on the level of profits you make from this client each year. This is not the same as the fees you earn, as it's the profits you would need to replace.

> **"Once you have identified your A-list clients and started to focus your attention on them, the more likely you are to increase your profits."**

Draft a letter explaining why you are not prepared to continue acting as this client's accountant. Think about how good it will feel to send the letter. And promise yourself that you will send it once you have won a new client that's likely to generate the same profits.

You'll then find it much easier to motivate yourself to go out and find the necessary new clients.

B-listers

These are good clients who share many of the characteristics of A-listers and who could one day move up the ranks.

When you have the time, you can then look to foster your relationship with these clients.

C-listers

These are also good clients, but for whatever reason, they are unlikely to ever move onto the A-list. A classic example would be the small and easy tax client who is unlikely to ever require any additional work and who has no valuable connections.

To be fair, you won't always be sure whether the B-list or the C-list is most appropriate for some clients. So, you may decide to simply focus on the A-list and the D-list. It's a start, anyway.

Practice Strategy: Segmenting and Managing Your Client Base

by Mark Lee

What is a good client?

How you decide who are the A-clients and in your top 20 percent is up to you. Factors you might take into account include:

- Level of recurring fees.
- Frequency of additional fees.
- Accepts additional or increasing fees.
- Always pays promptly.
- A pleasure to deal with.
- Profitability of the work.
- Introduces profitable and pleasant clients.
- Regularly advocates you and your practice.
- Recommends you to ideal new clients.
- Interesting and varied work.

What is a D-lister Client?

- Resists fee increases.
- Rude and unpleasant to deal with.
- Upsets staff.
- Demanding of you, but slow to respond.
- Work isn't profitable or valuable.
- Causes problems, such as work bottlenecks.
- Forces you to work outside of normal hours.

> **"Identify which client you would most like to stop having to deal with. Remind yourself why and focus on the level of profits you make from this client each year."**

MORE INSIGHT INTO

Practice Strategy: Segmenting and Managing Your Client Base

Michael Giardina, Founder & CEO
OfficeTools

One of the biggest challenges when evaluating your clients base in order to rank or segment, is finding the data you need to make an informed decision. Your staff might tell you a given client is "always" calling and emailing with frivolous questions or requests, but do you have hard numbers on the frequency of calls? their duration and purpose? Likewise, if you or staff aren't diligently tracking all time spent dealing with the client, including non-billable time, are you really getting an accurate picture of that client's profitability?

A CRM database of all client correspondence and related staff time is crucial to an objective evaluation of the client's value to your firm. Staff should be logging client calls, meetings and emails, with brief summations of the reason for and outcome of the correspondence, as well as accurately tracking the time spent on these activities, even and especially if you're not planning to explicitly bill for that time.

Segmenting clients can sometimes be a difficult process, but it's only made more so by a lack of good information. Keeping a database of documented client interactions will bring clarity and confidence to your decision making process, and that's exactly what we designed OfficeTools WorkSpace to do. Find out more about how WorkSpace can help you better evaluate and serve your client base at OfficeTools.com/AList.

Michael is the Designer and Architect of the WorkSpace ™ and WorkSpace ™ Online software. Michael has owned a tax practice, worked for multiple firms and provided consulting to over 500 firms. Michael routinely speaks at Accounting & Tax Conferences and webinars on the benefits of technology and effective firm management. Michael holds a Bachelor of Science in Business from Metropolitan State College, Denver, Colorado.

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Work Smarter, Not Harder!

Marketing For Your Practice

by Rachael Power

Marketing can be a frightening term, especially if you haven't been trained in this area. But, as Rachael Power explains, there are many reasons why you should market your firm.

Marketing has been mentioned more and more as a necessary skill for accountants. Whether in-house or outsourced, there is a need to market your firm for many reasons. Some of these reasons include:

- Obtaining new clients and business.
- Keeping up-to-date with existing clients.
- Selling new products or services.
- Asserting your dominance or expertise in a certain field.

There are many ways of marketing your firm, but it will depend on what you want to get out of it.

One of the first steps, therefore, may be to examine who you want to reach, what you want to tell them, and how you want to say it.

Vital Marketing Practices

According to Alex Tucker, marketing team leader at PracticeWEB, a sister site of AccountingWEB, marketing always consists of a mix of activities and platforms, and what is truly vital is to understand your ideal clients.

As such, create a "buyer persona" for the most profitable and enjoyable-to-work-with clients or prospects.

"This could include clients' aspirations, business problems, daily activities, where they look for different types of information, what social networks they use, which business events they attend, and any number of other attributes," Tucker said. "Then you can decide what's vital for your practice based on insight into your own ideal clients and prospects."

Importance of a Website

A vital element of marketing is having a website that reflects who you are and what you're like to work with.

There's often a debate over whether it's worth putting effort into a website when business is gained through referrals or recommendations. But the lifecycle of a client relationship is often more complex than this.

If a client tells a friend you can help them, it's unlikely they will immediately pick up the phone and call you with no further research.

Tucker added: "It's more likely they'll qualify you further by digging around your website for more information about your firm and how it operates."

"Websites can also inform and entertain clients through mediums, such as video, that are now easier and cheaper to provide than ever. However, the right amount of thought and effort needs to go into the message, script, and filming environment."

In addition, the person may have other friends making similar recommendations for different accountants. The website then becomes important in capitalizing on recommendations earned and helps to justify a premium.

Websites can also inform and entertain clients through mediums, such as video, that are now easier and cheaper to provide than ever. However, the right amount of thought and effort needs to go into the message, script, and filming environment.

Traditional Forms of Marketing

These include cold calling, business cards, posters, and Google Ads.

The use of these methods comes back to thinking about your ideal client and how they prefer to communicate, as well as where they are in the buying cycle.

It is important to ensure online and offline marketing efforts are connected, Tucker added.

For example, if a client has never heard of you, they are unlikely to respond well to an out-of-the-blue phone call. But if they have subscribed to your newsletter and received emails from you, they won't be surprised to hear from you.

On Google Ads, many firms are using this successfully to generate leads and get good return on investment.

Retargeting is also an option. This is where people who have visited your site see ads for your firm on other sites they visit.

Several platforms enable you to do this with no minimum spend and no contract. This works best if you already have a good volume of traffic on your website.

Old-fashioned online and offline networking can also prove effective, provided time and effort are put in. Always refer back to your buyer persona when choosing which networks to join.

Should You Do Your Own Marketing?

Tucker said marketing is likely to work best with a combination of both in-house and outsourced in the form of a partnership.

This means you own the message and direction of your marketing, but have access to specialist skills, technology, and advice.

Find out where clients network, how they communicate, and where they look for information. Start small and get feedback as you go.

Having a marketing plan will also help – there are lots of free templates and guides online that will help.

What Should You Spend on Marketing?

This depends on how your firm defines marketing spend.

It's important to have a clear handle on business objectives and activities and resources needed to help achieve them, Tucker added.

Hugh Duffy, Chief Marketing Officer
Build Your Firm

No Time to Market My Accounting Practice

While most accountants want to grow their accounting practice, they typically lack the time, skills and desire needed to grow aggressively. Unfortunately, marketing is the responsibility of every business owner, regardless of industry.

Lead generation approaches using outbound marketing techniques like cold call telemarketing, door knocking and interruptive techniques have been declining for decades. That's why savvy accountants use inbound marketing (aka – content marketing) to educate prospects, turn them into warm leads, develop a relationship and answer their questions consultatively.

In today's world, we love to shop but hate to be sold to.

If you are looking to grow your accounting practice with a sustainable approach, here are several tips:

- Avoid cold calling, door knocking and fax marketing.
- Adopt inbound marketing approaches (website marketing, blogging, speaking, free eBook, etc.).
- Differentiate your practice and become the best at something. Develop a niche.
- Hire a coach who understands the accounting industry.
- Organic growth is less expensive than acquiring someone else's practice.
- Proactively manage your reputation.

Marketing is like a marathon, not a sprint!

Hugh is a co-founder of Build Your Firm and has been the Chief Marketing Officer since the inception in 2003. He has more than thirty years of marketing experience. Prior to the accounting industry, he worked in the consumer packaged goods, internet media, and publishing industries.

Today, Hugh oversees the Outsourced Marketing Program for Build Your Firm. In this capacity, he helps accountant's capitalize on their strengths to create vibrant practices that command a premium valuation on the market. And, he manages the marketing and lead generation for many accounting firms so they can focus on what they do best.

Hugh has a MBA degree in Marketing from the University of Rochester and BS in Finance from the University of Maryland. While at Maryland, Hugh was on a golf scholarship as a Terrapin and his college coach was Fred Funk, PGA Tour player.

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The Benefits of Outsourcing

by Nigel Harris

In a world of increasing automation and smart IT solutions, it might surprise some observers to find that accounting practices are facing a steady demand for a wide range of outsourced services. And why not, asks Nigel Harris.

As accountants, we have a huge breadth and depth of skills and experience that small and growing business owners can tap into when they need them. At a stage in their growth before they can afford, say, an in-house payroll clerk, we can provide a flexible, cost-effective solution that can grow with them (at least until they are ready to recruit their own people).

Add Value to Basic Compliance

At the lower end of the value scale, we can provide basic compliance services, such as payroll, bookkeeping, or tax returns. For a very small business, it is often cost-effective to outsource these services, and who better to supply them than a trusted advisor in the form of their existing accountant? Some firms will employ accounting technicians to carry out this work, while others will prefer to subcontract it (i.e., outsource it themselves) to self-employed bookkeepers whose hourly rates are lower than the accounting firm's staff. The latter is a practical solution if your firm focuses on providing higher-fee, value-added services rather than basic compliance services.

If you would otherwise be unable to help clients yourself, introducing them to a reliable third party can help cement the client relationship even if you have to give work away in the short term. Both options, properly priced and managed, will provide a regular stream of profitable work. If you can gear up to handle a reasonable volume of this type of work, you can generate good profits from it.

Taking outsourcing to the next level, we can add value to these basic compliance services. You could team up with a law firm or employment specialist to provide HR support alongside your payroll service.

An obvious extension of bookkeeping is to provide regular management accounts and report on key performance indicators. Indeed, with most accounting software, you can produce such data with minimal effort, allowing you to earn extra fees by spending time with clients and explaining the figures to them.

Outsource Your Own Work

What we have described so far might be considered "insourcing" from the accounting firm's perspective. However, many profitable firms have built their success in recent years on outsourcing their own work (i.e., subcontracting some or all of their routine compliance work to lower-cost providers in the United States or abroad).

Financially it makes sense – the outsourcing provider represents an infinitely flexible resource charged only by the hour for work done. If you have no work, they don't have to be paid. When you're busy, they can process one, 10, or 20 jobs simultaneously.

An added advantage of outsourcing abroad to somewhere like India is not only the relatively low hourly rates but the time difference, which means that a lot of work is effectively done overnight for clients.

Turnaround times are improved with no loss of service quality once the working relationship and procedures are in place, but be aware that some time investment is required initially to set up an outsourcing relationship. Indeed, some firms have only been comfortable with the arrangement after they have visited the proposed supplier in India or wherever they are based. The firm using such a service can generally operate with a smaller core workforce of more highly qualified staff, as all lower-fee work is outsourced – all of which maximizes profitability.

Bookkeeping, payroll, tax return preparation, and accounts production are all widely outsourced in this way. If this is of interest to you, a good place to start would be to find and speak to firms that already do this or seek referrals from a

The Benefits of Outsourcing

by Nigel Harris

practice support organization, like 2020 Group USA.

Whether you are a supplier, customer, or both, outsourcing offers huge potential to increase the profitability of your firm. You need to give it serious consideration.

Typical Accounting-Related Outsourced Activities

1. Bookkeeping for clients: Clients can be helped to get started using an online bookkeeping package or introduced to a third-party bookkeeper.
2. Payroll services for clients.
3. Company secretarial work for clients.
4. Tax planning and support: In effect, avoiding the cost of having high-level tax expertise in-house and on tap five days a week.
5. Provision of credit to clients who want time to pay their fees.
6. Writing newsletters for clients.
7. Tax return preparation work.
8. Office-related facilities, such as telephone answering, typing, and transcription.

"An added advantage of outsourcing abroad to somewhere like India is not only the relatively low hourly rates but the time difference, which means that a lot of work is effectively done overnight for clients."

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Pricing and Payments: Putting it All Together

by Nigel Harris

The accounting profession is ultimately a business like any other – we sell professional services, explains Nigel Harris.

Pricing is a huge topic and has been written about extensively in the profession both in the United States and the United Kingdom by leading writers, such as Ron Baker and Mark Wickersham.

The consensus is that clients don't want to pay hourly rates, and accountants, in turn, should not sell their services on a time basis.

Charging hourly rates passes all the risk to the client – after all, they have no idea how long a job should take, so we are effectively asking them to sign a blank check. More importantly, time-based billing fails to recognize the value provided by assuming that every hour is of equal value to both accountant and clients.

Because clients' most frequent complaint is that they hate surprise bills, most firms now offer some sort of fixed fees, agreed upon up-front. For routine compliance work, this could be based on a standard price list. For higher-value work, a firm may be able to negotiate a value-based fee that reflects the client's perception of the value of the service or outcome. In such circumstances, it would be logical to find that every client buying a similar service is paying a different price because value is so subjective.

For work with a financial outcome, such as tax planning, clients may be prepared to pay a results-based fee, say a percentage of the tax savings achieved. This, of course, transfers the risk from the client to the accountant, and the latter would expect to charge a premium rate in return.

Fixed fees can be refined by offering several service levels – say, bronze, silver, and gold – with additional features included in return for higher fees. Clients can, therefore, choose a service level to suit them, although by carefully structuring the options, firms can effectively point clients to their target service package. For example, human nature means most clients will choose the middle option of three and avoid the perceived stigma of selecting the cheapest option.

Up-front Fees

But setting the fee is only half the battle. You also need to get paid. The question is when: up-front, when the work is completed, monthly over an agreed-upon period? Continuing services, such as payroll and bookkeeping, should typically be paid monthly. Annual compliance fees can be spread over the year in question, or over, say, six months before and six months after year-end so that the full amount is paid by the time the work is completed. Some firms spread fees over 10 months rather than 12, which accelerates payment and gives them a couple of months to agree on the fee for the following year.

Clients like paying slightly more each month over a shorter period in order to enjoy two months without payments, especially if that gap happens to fall over Christmas or a quiet time in their business.

Easier to Manage

Regular payments should ideally be collected by direct debit, which is easier for the firm to manage. Standing orders are the next best thing, but need careful monitoring when fees are increased. Payment by credit card or PayPal may suit some clients, and some firms successfully offer 10- to 12-month finance agreements via a lender. You will probably need to offer a mix of some or all of these, in addition to the usual cash, check, and bank transfer.

Your ultimate goal is to ensure that you get paid on time, every time.

Pricing and Payments: Putting it All Together
by Nigel Harris

Essential Checklist

1. Avoid time-based billing (except perhaps for open-ended project work where there is no clearly defined outcome).
2. Flat rate fees don't capture value for the firm – each client will value your services differently.
3. Explain the value first, then give them the price.
4. Agree on prices up-front – clients hate surprise bills.
5. Offer menu options to link prices, value, and benefits – and encourage clients away from the cheapest option.
6. There is no legal, professional, or business reason to give clients credit, so don't.
7. Use direct debits via a third-party provider if your bank won't let you offer them directly.
8. Don't spread payments past the date on which a job is completed.
9. Adopt the payment methods that your clients are most comfortable with – that may include online, credit card, or mobile payment.

> **"Clients like paying slightly more each month over a shorter period in order to enjoy two months without payments, especially if that gap happens to fall over Christmas or a quiet time in their business."**


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Cloud Plus: A Platform for Profitability

by John Stokdyk

Lots of firms proclaim, "We do cloud!" But that's not enough, argues John Stokdyk. The ones who really know what they're doing use cloud-based accounting as a way to focus more on advisory work.

Every accountant I meet at some point will want to talk about the cloud, even if it's only to say why they would never entrust their clients' data to the anarchy of the Internet. In the past year or two, however, it's more common to hear from firms that are making cloud into their unique selling point. But proclaiming your cloud capabilities isn't enough to set you apart – it's what you do with those online capabilities.

Practice technology consultant Joe Woodard talks about how accountants traditionally made their money "trading keystrokes for dollars." It's a noble profession, he adds, but unfortunately it's dying.

Contribute to Business Success

Accounting's ultimate goal should not be accurate, real-time accounting, Woodard says, but contributing to business success. Where the cloud comes into play is that it offers accountants a way to interpret client data in real time. "You can trade what you know – a lifetime of experiences supporting small business – for even higher dollars and value," says Woodard.

For the past couple of years, Valued Accountancy Services founder Stephen Paul has built his firm around an advisory model made possible by Xero and a host of add-on applications.

"We use over 25 items of software on a daily basis with our clients, ranging from data-entry tools, such as Receipt Bank, to forecasting and reporting tools, such as Spotlight, and everything in-between, including cash collection and cashflow reporting," he explains.

Valued is probably as cloud-focused a firm as you can get, yet Paul ensures the software is subservient to his wider goals.

"Our aim with all technology is to make it easy to use so that the client can see the end result in a format they understand," he says.

> **"Whether looking at your own strategy or going into a client business, you'll need to brush up your systems-analysis skills to identify all the internal processes, who does them, and how they need to change."**

Being a truly trusted advisor to your clients takes a lot of time and face-to-face contact. To support this level of engagement, you have to do the basics really well. Their business depends on it – and so does yours.

In addition to becoming a sensitive, people-oriented advisor, you've got to be able to analyze and map their data needs and sticking points in their financial processes. Then fix them.

Whether looking at your own strategy or going into a client business, you'll need to brush up your systems-analysis skills to identify all the internal processes, who does them, and how they need to change.

Deepen the Client Relationship

Businesses interested in cloud accounting often have a web presence and conduct a lot of business online. Booking e-commerce transactions into cloud accounting systems can pose as many questions as desktop systems and carries the same risk of skewing updates or missing data. You will need to be able to spot and plug those leaks.

This is not a strategy for the faint-hearted. You need to be competent at managing the digital plumbing, as well as the client relationship. You are putting yourself into a much more intimate position with business clients – and taking on more risks if anything goes awry.

These pathfinders have demonstrated that the enhanced cloud practice model can deliver impressive results, but to make it work, you have to go in with your eyes open.

Are You Thinking Strategically About Cloud Accounting?

- Know what you want to achieve and educate yourself about the available options.
- Focus on client outcomes, integration, and efficiency – not cloud for cloud's sake.
- Research the tools that might fill a particular gap or deliver a strategic benefit to your firm. Discuss them with your colleagues and peers, or ask around on online forums like AccountingWEB.
- Try things out and see if they work for you and your clients.
- Consider the likely return on investment of cloud tools over a three-year period and ask suppliers about the cost implications if your growth plans meet or exceed expectations.
- Know where you stand on data protection law and backup and recovery.
- Take advantage of free trial periods to test cloud systems with your own data before signing on the dotted line. You do this already with desktop software, too, right?