Small Firm Solutions

WINNING STRATEGIES FOR PROFITABLE FIRMS

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HOT TOPICS FOR SMALL FIRMS

From James Metzler, AICPA Vice-President, Small Firm Interests

Welcome to the latest issue of Small Firm Solutions*, the AICPA e-newsletter created especially to address the unique needs of members in the smallest firms. We hope that you are finding this publication useful and responsive to the challenges you face. Here's an update on some of the recent developments that will have an impact on small practitioners:*

The nationwide credit crisis. The daunting problems facing Wall Street are having an impact on CPAs' clients on Main Street. All across the country, small businesses are finding that lenders are placing stricter limits on credit. At the same time, business owners are also bracing for declines in demand for their products and services. This might mean anything from cancelled expansion plans to cash flow difficulties that can make it tough to cover expenses or meet payroll.

What it means for small firms. Small practitioners can take a leadership role in helping clients weather the crisis and make the right decisions for their businesses. Business owners will welcome the advice and perspective that a CPA can offer. For the most part, they are probably seeking basic advice on how to handle shrinking credit options, falling sales and an uncertain economic future. CPAs can step in to help calm their nerves and provide the business insights and expertise they need. To help CPAs open a dialogue with clients, the AICPA Private Companies Practice Section has created a client communication on the credit crisis for all AICPA members. The letter, which CPAs can send to the businesses they serve, reviews the issues to consider, including problems relating to sales and revenues, credit concerns, expenses, insurance and deposits and investments.

For more information, go to http://pcps.aicpa.org/Client+Credit+Crisis+Communication.htm.

The Institute's reliability initiative. In regard to compiled and reviewed financial statements, what's more important: The accountant's integrity, expertise and objectivity or whether the accountant is independent from the client? If the "threat" to independence occurs because the CPA has performed certain accounting services for the client, many would say that those services actually only make the financial statements more reliable, while not necessarily hindering the accountant's integrity and objectivity. Right now, however, according to the Accounting and Review Services Committee's compilation and review standards, if there is any impairment of independence, the CPA may perform a compilation but is required to note his or her lack of independence in the report. He or she may not perform a review if independence is impaired. Both CPAs and users of private company financial statements have questioned whether these restrictions make sense. That's why, as part of the Institute's Reliability Project, ARSC is now studying this issue to see if it's possible to make changes that will reflect client service realities and serve the public interest.

What small practitioners need to know. Many CPAs believe that the current independence rules hamper their ability to provide clients with the services they need. Many practitioners have expressed their concerns about Ethics Interpretation 101-3, *Performance of Nonattest Services.* ARSC is working towards exposing a new standard in late 2008 or in the spring of 2009. You'll find updates on any new exposure drafts in future issues of *Small Firm Solutions* and on the PCPS Firm Practice Center at www.aicpa.org/pcps. I would encourage you to take the opportunity to express your opinion on this important issue once an ED is released and the comment period is open.

An update on the SBA strategic alliance agreement. I hope you're aware that the AICPA has entered into a strategic alliance agreement with the U.S. Small Business Administration in order to make it easier for CPAs to access SBA resources and to promote greater awareness of CPA services. In fact, SBA regional directors are distributing tens of thousands of copies of "A Guide to CPA Services," which describes the benefits of working with CPAs to small businesses. You can find that brochure here: http://www.aicpa.org/cpamarketing/downloads/GuideToCPAServices_HR.pdf.

Why it's important to small firms. In the past, some of you have been frustrated in your dealings with the SBA. I would encourage you to give them another chance, however, because many changes have taken place at the agency. At the same time, we believe the strategic alliance provides worthwhile benefits for our members and their clients.

How to learn more: There's an introduction to what the SBA has to offer on the PCPS Firm Practice Center's U.S. Small Business Administration Resource Center at http://pcps.aicpa.org/Resources/U.S.+Small+Business+Administration+Resource+Center/. This site features sections with resources for start-up businesses, including areas that focus on planning, financing and loans and licensing and permits. The section for existing businesses offers tools related to business management, leadership and human resources, information technology, financial, revenue growth and loan information, and planning a business exit strategy.

The FASB GAAP Codification. A reminder: There's still time to comment on the *FASB Accounting Standards Codification*, which is undergoing a one-year verification period. This new user-friendly online resource organizes all U.S. generally accepted accounting principles pronouncements into one easy-to-navigate reference. It will become the sole source of authoritative GAAP when adopted, which is expected to occur next year.

What it means to small firms. The Codification was designed to make accounting literature easier to access and use. I encourage small practitioners to try it out and offer any comments you have. To register free to review the Codification, go to http://asc.fasb.org. ■

James C. Metzler

THE SOLE PRACTITIONER

Strategic Planning: How to Make it Work

By James C. Metzler, CPA, AICPA Vice-President, Small Firm Interests

Formal strategic planning can help every business owner assess the current market and the company's health, and create a course for the future. Many sole owners neglect this important step, however, for a variety of reasons. Some make the mistake of assuming that strategic planning only applies to large firms. In fact, every firm needs a cohesive plan for the future, no matter what size it is. If you fail to plan, you are likely to miss out on some promising opportunities or forgo the chance to solve ongoing problems.

Other CPAs insist they simply don't have the time to take this step. That's understandable, but I believe strategic planning should be given a high priority on any practitioners' schedule.

Here are some of the ways to put it to work in your firm:

- *Make an appointment with yourself.* Mark off time on your calendar for a planning session and resist the temptation to cancel this appointment no matter what other distractions arise. It may be a good idea to leave the office for your session, setting yourself up in a study room in your local library or another quiet location. No matter how or where you handle the session, be sure to treat it like a meeting with your most important client—your firm.

- *Perform a SWOT analysis of your strengths, weaknesses, opportunities and threats.* This is a great way to get a quick assessment of where your firm stands. Begin by listing your strengths. Are you making the most of them? Are you able to devote most of your time to cultivating your best clients or most profitable services? Next consider your weaknesses. Do you have the staff—full or part time—that you need to do all the work available to you? Do you have the expertise to keep up with clients' changing needs? In examining opportunities, consider what they are and whether you have a plan to make the most of them. Finally, examine both external and internal threats. Competition from other firms is one obvious threat, but internal threats can be equally damaging. For example, does the bulk of your income come from one client or one type of client? Also, do you have a practice continuation agreement in case of emergency?

- *Set priorities.* List all the items on your SWOT list in order, based on their importance to your firm. At the top of the list will be the items—whether positive or negative—that could have the greatest impact on your business in the short term. From there, list the items that will have a long term impact or that are the least likely to significantly affect the business.

- *Plan for the future.* Your SWOT analysis should clarify the steps you need to take next to maximize your strengths and opportunities, minimize weaknesses and address threats. Using your priority list,

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make a timetable that sets out how and when you need to act on each step, to ensure follow up.

- *Hold yourself accountable.* Strategic planning is not a once-a-year event. Taking action on your plan is the most important part, and it's something that you can do every day in your firm. To be sure the plan is not forgotten, set dates in your timetable on which you will revisit your plan and check on progress.

Putting the Plan to Work

How do these recommendations work in practice? Consider a practitioner who conducted strategic planning and a SWOT analysis and has decided that broadening her firm's client base is her top priority item. On her timetable, she might decide she would like to take part in five networking events in the next three months. At the end of the quarter, she would revisit her plan to see whether she had met her goals and to decide what steps to add to her timetable in the next quarter.

Strategic planning is a good business step that can benefit firms of every size. But it's especially advantageous to sole proprietors, since they rarely have the chance to step back and get the big-picture view of their business. Before busy season begins, invest time in your own business in order to reap the dividends going forward. ■

MERGERS AND ACQUISITIONS

When Should A Small Practitioner Merge Into A Larger Firm?

Most sole practitioners and small firms are that size for a reason: They prefer to be. Additional accountability, shared control and many other facts of life in a larger multi-partner firm can be daunting prospects. But sometimes there are good reasons for small firms to consider an upstream merger. If you ever wonder what you're missing by staying small, here's a review of the reasons for merging and the best way to handle a transition.

Reasons to Consider an Upstream Merger

Here are some questions to ask when trying to decide if this step is right for you.

Do you have a succession plan? Most smaller firms do not have an internal succession solution and merging with a larger firm certainly provides one. (See "Succession Planning: Where Do You Stand?" in the Summer 2007 *Small Firm Solutions* for more details.) If you do not have a succession solution or solid plans for transitioning to retirement, a merger is an attractive option.

Can I offer my clients all the services they need? Many smaller firms have clients that may be interested in other services, but the CPAs lack the time, knowledge, capacity or licenses to deliver what they need. Merging with a firm that provides broader services may be a great way to secure clients, generate additional revenues and develop additional clients. Both sides benefit if the small firm has areas of expertise that the larger practice can use.

Who will take over my firm in an emergency? Many sole practitioners and small firm owners have no one to fill in if they face short- or long-term disability or if they die. In some cases, it can be difficult even to go on vacation with no one around to watch the fort. While many small practitioners highly value their autonomy, some believe that a merger with a larger firm can provide greater flexibility and security for them, their estate and clients.

Do I have the staff I need to get the work done? In almost 20 years in the profession, I have never seen the staffing shortages that exist today. Many firms have the opportunity to bring in new clients and expand services to current clients, but they cannot find or develop the staff to accomplish their goals. A merger with a firm that has excess capacity can achieve these growth models overnight.

Deciding on a Merger Partner

It may be easy to answer the questions above, but finding the right merger partner is not quite as simple. Bigger is not always better, so there is a new set of questions to ask when considering each potential partner.

What is the firm's capacity? What kind of expertise does it have? If you are merging to cross sell, for succession or to address staffing problems, the new firm must have the appropriate excess capacity. And a larger staff alone does not necessarily fit the bill. For example, if you personally visit your clients and you are seeking a succession solution, the successor firm must have the partner level capacity to offer the clients the same level of attention or else they will lose those clients. If you need more accounting support, they must have that level of support available and be able to reassign some of your administrative duties.

Will I be happy working at this firm? Will my staff? My clients? As I have been known to say for years, if you don't want to eat lunch with someone, don't merge with them. You need to have a personal comfort level as well as a professional one. Do the firm leaders share your philosophy about billing, collections, customer service and all the other details involved in running the

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business? Is their fee schedule or billing rate comparable? Is their location convenient for your clients who are used to visiting your current offices? How do the fee schedule and service approach compare with what your clients are used to? Questions like these will help you determine whether everyone involved will be satisfied with the merger.

What is their approach to client service? Most smaller firms provide a significant amount of handholding to their clients, while many large firms only do a limited amount. Can the new firm offer clients the service they've become accustomed to? This question goes beyond capacity to the firm's client service philosophy.

Is this firm the right fit? A bigger firm may offer many opportunities and solutions for smaller practitioners, but a very big firm is not necessarily the right solution. Firms that are only slightly larger than your own will have a culture closer to your own than a large national or regional firm. That will make it easier to make the pairing work.

Starting Out Right

Even after you've found the perfect merger partner, it's still important to set some concrete ground rules to ensure you get off on the right foot.

What will my role be? You should make sure you understand your decision-making authority in the new firm, whether you will continue to manage your book of business and other critical questions. In our business, most of the deals we create enable you to remain the professional in charge of your book.

What will I earn? Most of the deals we have done did not require the small practitioner to take a step backwards in income to make a merger work, although there are exceptions based on the smaller practitioner's need for more staff, overhead and the like. It's important to know the buyout formulas, treatment of disability or death and all aspects of the "package" you will be receiving.

What If It Doesn't Work?

Many firms include a de-merger agreement in their negotiations going into a deal. Remember, though, that if you are merging to create a succession plan, a de-merger agreement may not be in your best interest because you may be leaving the door open for the successor to walk away from the deal. In that case, you run the risks of losing clients, delaying your succession goals and allowing the buyer to make one deal today and a better one tomorrow. Mergers for reasons other than succession typically do include a method of unwinding the deal if it does not work. For those who wish additional information on how these pre-nuptial agreements work, refer to "Untying the Knot: Planning for a De-Merger," in the October 2007 *Journal of Accountancy* (http://www.aicpa.org/pubs/jofa/oct2007/untying_knot.htm).

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TECHNOLOGY

Smart Phone Options

By Roman H. Kepczyk, CPA.CITP

Your cell phone is on the fritz and it is time to replace it. However, the market has changed. In addition to a standard telephone that can store contact information, there are now a slew of new "smart phones" that will add all kinds of functionality including e-mail, calendar and business document access (PDF/Microsoft Office), WiFi, Internet browsing, as well as great features like a full QWERTY keyboard, laptop tethering and a camera. Before rushing out to buy the "coolest" device, firms should first consider their primary needs, as each smart phone has some features that are better than others, which are summarized from a CPA firm perspective below.

PALM OS: For ease of use and efficiency for contacts and calendaring, the Palm operating system has long been the simplest and is still popular, particularly with firms that had previously installed a GoodLink server. While Palm has gained *consumer* market share with its latest Centro device, many CPA firms that are just moving to smart phones are jumping to BlackBerry or Microsoft Mobile due to better synching and business features, as well as projected long-term viability within the business market. To add to the Palm confusion, many of the Palm TREO devices now run Microsoft Mobile instead of the Palm OS.

Microsoft Mobile: The vast majority of firms rely on Outlook as their primary information manager. With the adoption of Exchange 2007 in many firms, Microsoft

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Mobile becomes the easiest platform to transition to and the most cost effective because the synchronization is integrated. For CPA firms adopting a smart phone platform today, a slight majority seem to be going to the Microsoft platform (particularly small and medium-sized firms), as it does not require an additional server or licenses and is preferred by IT departments. Most of these phones can be used to provide Internet access to a laptop (tethering) in the same fashion as digital cellular air cards, for an additional monthly fee.

Research in Motion BlackBerry: RIM has captured the lion's share of the mobile smart phone market in North America, particularly in larger corporations and entities where "push" e-mail is the priority. That's because they have one of the most reliable and secure messaging delivery platforms. Newer phones can also provide Internet tethering. In addition, RIM has reduced the cost of the BlackBerry Enterprise Server (BES) so that it is more competitive with Microsoft's offering. In firms where real time messaging has been and continues to be the top priority, BlackBerry will remain the leading choice for the immediate future.

Apple iPhone: The Apple iPhone is definitely one of the coolest devices around. With its newly added 3G support and integration with Microsoft Exchange, it is expected to catch the eye of many a CPA firm partner. Three issues that have slowed CPA firm adoption of Apple have been the different hardware platform (which can cause more support "dinking" time), the current lack of tethering capability and the fact that it is only offered through AT&T, which is not the strongest cellular provider in many markets where CPA firms operate.

Decision: For those firms that have not already implemented a smart phone platform, the first step is to prioritize your needs, such as real time messaging (BlackBerry) or access to personal contact information and documents (Microsoft Mobile). Practitioners should then select the digital cellular provider that has the best local telephone service quality and Internet access. Only then should firms select a specific smart phone model. For greatest success, firms should standardize on one platform and one device so that they are easier to support and provide training to end users.

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