

Seasonality Success

WINNING STRATEGIES FOR PROFITABLE FIRMS



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A TOOL FOR SUCCESS FROM PCPS

Seasonality Success, Winning Strategies for Profitable Firms, is a quarterly PCPS newsletter dedicated to helping CPA firms enhance their peak season possibilities. Each quarter, we focus on great ideas in four key practice management areas:

- n Positioning
- n Client Strategies
- n People
- n Systems and Processes

Every article will look at practical, hands-on solutions that can make your practice more effective and efficient based on the experiences of other successful practitioners and the advice of top consultants.

SPECIAL ISSUE: HANDLING AN UNCERTAIN ECONOMY

Seasonality Success was created to help PCPS members make the most of busy season opportunities. Given the current economic climate, this entire special issue will cover ideas on how to weather the crisis and identify opportunities for firms and their clients.

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POSITIONING

Client Credit Crisis Communication

During troubled times, clients turn to their CPAs for insights into how to avoid missteps and protect their businesses and investments. To help members respond to their concerns, the AICPA Private Companies Practice Section (PCPS) created this letter that practitioners can send or email to clients with advice on surviving the credit crisis. Practitioners are encouraged to circulate it to clients to remind them that you are there to help them address the many challenges facing their businesses. It's also possible to access the communication online at <http://pcps.aicpa.org/Client+Credit+Crisis+Communication.htm>.

Dear Valued Client:

The recent credit crisis is just a reminder of the importance and benefits of having a sound strategy that you can use to navigate through turbulent times. Don't hesitate to contact your CPA for objective guidance in helping you make intelligent financial decisions for the future of your business. In the meantime, below are some tips to help you assess your current financial condition and start rethinking your business plan to face the current economic challenges.

1. Don't panic. It's difficult to make sound decisions if you do. To get a better sense of where you stand, begin by reviewing your cash position and anticipated cash needs. Are they in line with your business's short-term needs, goals and risk tolerance?
2. Take a fresh look at your monthly income and expenses. Have you been meeting your budgeted projections? How much of a drop in revenues can your business withstand and for how long? What are your cash-flow needs for the next 90 to 120 days? Or 120 to 180 days? Do you have sufficient cash reserves for the next 30 to 60 days?
3. Check with your lenders on the status of your credit lines. Are you in compliance with their terms? Will your bank renew their commitments at similar amounts, rates and terms?
4. Eliminate your reliance on credit by disciplining your spending.
5. Refocus on your balance sheet and how much credit you are extending to your customers.
6. If your credit lines are frozen or at their maximum limits, consider meeting with vendors and working out a schedule of partial payments that would allow continued delivery of critical materials and supplies.
7. Look into alternative types of financing. Some to be considered are loans on life insurance policies, loans from key customers that rely on your business for their materials and supplies or from labor unions, local development agencies or the U.S. Small Business Administration.
8. Keep an eye on your accounts receivable. Watch for new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine whether credit constraint or economic slowdown will affect their ability to pay you. Keep receivables aging current at all times.
9. Manage accounts payable more closely. Forfeiting early pay discounts may be more advantageous in preserving cash that may be needed for

critical items. Keep payables aging current at all times because that's an important tool for managing cash.

10. Analyze your expenses and determine which ones can be controlled. Can you reduce spending in any areas to put less of a burden on your cash-flow needs? As necessary, communicate to staff/team members about the need to tighten spending. If you are a manufacturer, review inventory management practices. Are there opportunities to reduce your on-hand inventory? Service companies should make sure they're capturing all their billable hours and invoicing promptly. Have you billed all your contractual items? How about all your pass-through expenses, such as billable third-party services and travel and living expenses?
11. Consider ways to pass your increased costs (i.e., fuel expense) on to your customers.
12. Check the safety of any cash deposits you have. On October 3, 2008 the FDIC deposit insurance was temporarily raised from \$100,000 to \$250,000 per depositor through December 31, 2009. If you have more than \$250,000 in any one bank, move the excess to another FDIC insured bank. Consider investments such as CDARs (Certificates of Deposit Account Registry) to spread the risk of short- to medium-term cash you may have invested in CDs.
13. Don't engage in panic selling of your investments. Make sure your portfolio is diversified and in accordance with your risk tolerance.
14. Come up with a plan NOW to respond to future declines in revenues, before they actually occur. Re-think your business strategies and update projections. Review your product/service lines to identify the most profitable items and determine how to leverage for future growth in profits.
15. Contact your good customers. Even casual discussions can lead to new business opportunities.
16. Review all your insurance coverage, particularly any from companies with weak balance sheets. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.
17. Calm your employees' fears about how this crisis will affect the company, their jobs and their retirement or other benefit plans. Speculation and gossip are counterproductive, so it's better to address their concerns directly.

For help in understanding some of the issues facing small business, you can turn to the CPA profession's free Financial Literacy Web site for consumers, <http://www.360financialliteracy.org>. It offers tools and tips to help you make important decisions for your business and your own personal financial planning needs.

Finally, remain focused on your own advantages. Remember that:

- n Small businesses have greater flexibility and can more easily adjust to changes in the economy than their larger counterparts.
- n Small business owners can use the recent crisis as an opportunity to buckle down, refocus, assess and make their company more financially sound, disciplined and less reliant on credit.

During tough times, it's important to maintain communication with your CPA firm, your trusted adviser. Remember that you are not alone. We know and understand your business and the challenges you face, and we can work with you to navigate these turbulent times. We can help you gauge your current situation in the wake of recent market events and create a sound business plan in response. Contact us today for expert advice on how to maintain your company's success.

CLIENT STRATEGIES

Responding to Hard Times

How can clients make the best of a troubled economy? CPAs are stepping up to offer advice on meeting the challenges and even seizing the opportunities that the current market environment. Here's some advice on how to do it.

Make yourself available. For Eric Rigby of the Rigby Group in New Orleans, 80% of his clients are small business owners. "It's really imperative that they have a sounding board at a time like this," he says. Rigby regularly calls them or takes them to lunch to talk about their concerns. "We may not solve the problem immediately, but it gives them a chance to step away from the day-to-day issues and think about their business." The effort reinforces Rigby's interest in client's problems and, in some cases, may lead to a consulting engagement to help implement a new plan or direction for the client business.

Identify ways the firm can help. "Many of our clients are struggling," say Lewis Hall of Keiter, Stephens, Hurst, Gary & Shreaves in Richmond, Virginia. "We've been focusing on communicating with them and offering reassurance. Not false reassurance, but realistic plans." For example, the firm has advised clients on working with creditors to alter payments and loan terms to enable the company to survive tough times. "Companies are getting a lot of pressure from banks," he notes, "But we point out to the banks that pushing the company into liquidation may not be the best answer for them. In many cases, the bank has no chance of collecting if they do that." Banks seem to be most responsive to companies that have a written plan detailing how they will navigate the downturn. "A written plan can really make a difference to a bank," he says. "The plan outlines the steps you will take and includes a promise to stay in touch with the lender. It also reassures the client by allowing them to focus on executing the plan."

Keep clients informed. Rigby's firm creates client newsletters to respond to important developments, such as the initial drop in stock prices. This kind of communication can cut through the confusion of complicated events and explain how the firm can help. After a significant market or economic event, he will also reach out to large or especially nervous clients to address their concerns.

Action Agenda

- n Contact clients. Give priority to large clients and those most likely to be rattled by an uncertain economy.
- n Consider sending news updates when important developments occur to put them in perspective for clients.
- n Anticipate client needs—such as help with financing issues—and take steps to put a plan in place as necessary.
- n Point out opportunities open to clients because of shifts in the economy. Consider what benefits are available to the firm, as well.

Consider the opportunities. Grim economic forecasts are not necessarily all bad news. Both firms and their clients might be able to identify benefits even during a recession. For example, many businesses have grown very quickly during the recent boom times, which means their operations may not be as lean or efficient as they could be. This is a good time to reconsider operations and make needed adjustments. At the same time, an organization that remains sound is in a good position to pick up new clients or customers from competitors that are struggling. Businesses should be aware of changes in their competition and plan to take respond to them. Clients may not perceive a recession as an opportunity, so CPAs can explain how to make the most of a bad situation.

Action Agenda

n Assemble the partner group to decide on a united approach and consistent message for clients and staff.

n Schedule an in-house town hall meeting led by the managing partner.

n Develop a talking points sheet of possible client questions and answers to them. Distribute to all firm members.

n Establish best practices to follow in areas such as client contact, time and billing procedures and internal communication in light of the downturn and its effect on clients.

n Offer help to staff. Let them know how to get more information or advice on their own personal financial issues.

PEOPLE

Setting the Right Tone Internally

In an uncertain economy, both clients and staff will have questions about how the firm is doing and about their own financial situation. The best response is to send a unified message, according to Rita Keller of Keller Advisors LLC, in Dayton, Ohio.

Address the issue head on. Keller recommends that the managing partner meet with the partner group on the importance of sending a consistent message and setting an example before the staff. The firm should also call a team or town hall meeting, led by the managing partner, who will reassure the staff about the firm's own prospects and discuss the best way to calm clients' fears.

Everyone in the firm should attend the meeting, which may mean that repeat sessions are necessary to include all administrative staff or those doing fieldwork. "The entire team should hear the message firsthand from the managing partner," Keller says. "Relying on the grapevine is not good enough in this situation."

Set an upbeat tone. The overall theme, Keller advises, is that as clients turn to their CPAs for reassurance and guidance, the firm has the opportunity to take on a leadership role in helping them weather the storm. The partners can stress that they have seen—and survived—previous downturns in the economy.

Partners can also offer some perspective on recent economic ups and downs. "CPA firms have experienced several years of dramatic growth," Keller notes. In some cases, internal systems may not have kept pace with that growth, resulting in low realization and other problems. If the firm faces a slowdown, practitioners can use it as an opportunity to improve processes and efficiency. "Tell staff that this is a chance to streamline your operations so that you are in an even stronger position when the economy turns around," she says.

