SMALL FIRM SOLUTIONS

WINNING STRATEGIES FOR PROFITABLE FIRMS

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IN THIS ISSUE

HOT TOPICS FOR SMALL FIRMS

FROM JAMES C. METZLER, CPA, 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:*

FIN 48 deferral. Practitioners will be very pleased to hear that they will not have to tangle with one particularly challenging standard when it applies to certain clients during the upcoming busy season: FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The board decided to defer the effective date of FIN 48 for an additional year for most nonpublic entities so that implementation guidance for pass-through entities may be developed. During the deferral period, FASB also plans to amend FIN 48 to provide relief from some of the disclosure requirements for nonpublic enterprises.

Why it's important for small firms. CPAs will now have more time to understand how to implement this complicated standard. The Institute regularly monitors developments that will affect our members and informs standard setters about the impact of their decisions on practitioners and their clients. Much credit in this case is due to the AICPA PCPS Technical Issues Committee, a group that speaks out on behalf of small firms and their public company clients. TIC successfully lobbied FASB for deferral of FIN 48 for pass-through entities and the development of related implementation guidance. TIC also supported the Private Company Financial Reporting Committee in seeking disclosure relief for private entities.

To learn more about the deferral: http://fasb.org/fasb_staff_positions/prop_fsp_fin48-c.pdf

Coping with recession. I hope that all of you saw the last issue of *Small Firm Solutions*, which was a special edition focusing on the recession and credit crisis now gripping the country. In particular, I hope you are aware of the PCPS Client Credit Crisis Communication that is available to all AICPA members. Firms can send the communication, which includes insights for clients on meeting economic challenges, under their own letterhead to educate them on key concerns and their options in addressing them.

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

The 2008 National MAP Survey. Although we have now officially been in a recession for over a year, the 2008 PCPS/TSCPA National Management of Accounting Practice survey found that a large majority of CPA firms reported continuing strong growth during the past two years.

What it means for small practitioners. It's clear that CPA firms continued to do well despite early strains on the economy. And business people will likely continue to appreciate the value of CPA services. Clients may need more help from their CPAs going forward and banks may turn to practitioners for more assurance about the companies with which they do business. However, firms may also lose business as clients contract or disappear, and we can expect greater fee competition from other firms and fee pressure from clients. Hiring, on the other hand, may become less challenging. Some larger firms are laying off staff, which means small practitioners may be able to recruit some talented professionals. Firms should consider both the challenges and the opportunities in their strategic planning.

For more information: http://pcps.aicpa.org/Resources/National+MAP+Survey/2008+National+MAP+Survey.htm

James C. Metzler

PRACTICE MANAGEMENT/M&A

What Will a Bad Economy Mean for CPA Firm M&A?

Every news story reinforces the idea that we are in economically challenging times. How will these turbulent times affect the mergers and acquisitions market among CPA firms? What other practice management considerations could it raise? While no one knows with certainty what will happen down the road, a look at the past sometimes can give you a sneak peek into the future.

Learning from the Past

In early 1990s, a tough economy made it difficult for most of my clients (accounting firms in the New York metropolitan area) to collect their own fees, let alone grow. Client attrition was hurting gross volume at a pace that ran well ahead of new client development. An ad in the New York *Times* for a junior accountant brought letters from hundreds of seniors applying for the junior's job. The reason was a steep decline in the real estate market, in new construction and in retail sales, especially in garments and textiles. There are clearly some comparisons to our own situation today. So what did we see during that time that we may see again?

Until very recently, CPA firms were having a great deal of trouble finding staff. In recent months, though, the top 10 accounting firms have laid off a lot of employees, as have many financial service and other companies. My regional firm clients have suddenly begun filling positions that have been tough to fill for the last two years. While this windfall has not trickled down to the small practitioners yet, there is reason to believe that staffing issues may improve soon. While this is a good thing for many accounting firms, we do have to wonder if we will need the labor if demand for services shrinks.

Over the past few years, the value of accounting firms has dropped in most parts of the country. This has been primarily due to three factors:

- The aging of the baby boomers, which increases the supply of firms on the market.
- The shrinking labor force, leaving fewer firms with excess capacity to buy, which lowers the supply of buyers.
- The good economy, which has made it possible for so many firms to grow organically that there was less interest in acquisitions and therefore lower demand.

Anticipating Near-term Change

How will this change in a recession, if at all?

One possibility may be a return of what I saw in the early 90s: A huge demand for accounting firm acquisitions. Acquisition was one of the few ways to grow and offset the loss of business from clients in financial trouble.

If acquisitions do become popular again, the economic climate will likely work against all-cash sales of firms. I have never been a proponent of any cash/no retention deal for an accounting firm, and uncertainty about client retention during a recession will likely mean that most sales within the profession will be based on future collections and client retention. This protects the buyer against client losses. The seller, too, may benefit from a higher value. That's because buyers will be anxious about buying a firm and losing clients that go out of business and less likely to engage in fixed-cash deals. Add in the challenge of finding financing for an all-cash deal, and you can see that the attraction-—and value-—of these deals will probably decline.

But there's better news for the seller who is willing to share the risk. This seller offers the buyer an opportunity for an immediate influx of clients and the chance to pay only for those who are retained. As a result, don't be surprised if the seller who wants little to no retention period has a hard time finding a buyer or a good value, while the seller who makes a deal based on retention is well rewarded for his or her years of sweat equity.

Niches Become Popular

Another notable development in the early 1990s was the addition of niches at CPA firms. How many readers have added a new service area (financial services, information technology consulting, business valuation, general consulting, etc.) that you never had before the early 1990s? This is partially a practice development strategy when demand for traditional services declines.

In recent years, many firms may have been reluctant to venture into a new niche or may not have felt it was necessary. Will that change? Are we about to see an influx of new niches catering to individual and business needs that reflect the current economy? For example, consulting on bankruptcy and debt problems may become lucrative niches. It's easy to imagine them adding significantly to a firm's bottom line.

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Mergers for Overhead

In the early 1990s, many firms decided it would be a great idea to reduce rent, software, labor and other costs by merging. One valuable lesson to be learned from that period: Don't merge for this reason! Many of us spend more waking time with our partners than with our significant others. Being a partner is about more than sharing space. There are many good reasons to merge, including but not limited to adding depth of talent, niches, services, succession, marketplace, cross selling and more. However, if the only point of merging is overhead dumping, live together (share space), but don't get married!

What to Expect

How will the CPA firm M&A market change? While no one knows for sure, expect to see values stop sliding and even potential increases in price for sellers of smaller firms in densely populated areas of the country who are open to appropriate retention periods that adjust the balance the seller is owed from the buyer based on future client retention. New niches will become popular and some old ones, such as bankruptcy consulting, will strengthen in the current economy. The staffing shortage will ease as more people are let go.

Mergers will remain a powerful solution for mitigating client losses, adding niches, cross selling and, when coupled with these benefits, reducing overhead for both parties.

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PRODUCTIVITY BOOSTER

Tethering Your Smart Phone to Your Laptop

by Roman H. Kepczyk

The 2009 Paperless Office Benchmarking survey done by the Association for Accounting Administration found that an astounding 74% of firms had staff using smart phones. Smart phones are much more than just cell phones because they allow access to the owner's email, contacts and calendar, as well as documents. In the United States, smart phones consist mostly of BlackBerry, Apple iPhones and those running the Palm or Microsoft Mobile operating systems. In addition to being a telephone, smart phones can take advantage of their Internet connection capability to provide wireless data access to the owner's laptop in much the same way that a digital cellular air card would.

Digital wireless services have a much broader area of coverage than WiFi and can add "remote Internet capabilities" to most existing phone contracts for much less than a separate air card and additional contract. This process is most often referred to as "tethering" and uses either the synchronization cable that came with the phone or wireless Bluetooth to provide the Internet link. Users can usually extend their data plan to add this feature for an extra $10 to $50 per month. While it may not be quite as fast as a dedicated air card, it is convenient if you already have a smart phone, as it allows for dual capabilities. If a phone call comes in, the owner can operate it as a phone and then when they hang up, the device usually picks up Internet access where the user left off. If you have a smart phone and a laptop that you want to use for Internet access, ask your provider about tethering options today.

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SMALL FIRM SOLUTIONS *is a quarterly e-newsletter designed to help AICPA members in the smallest firms make the most of their opportunities and keep track of important new developments in the profession. It offers news updates as well as articles with practical solutions to common practice challenges.*

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