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This electronic newsletter is prepared especially for public practitioners and is sent bimonthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from Bill Reeb, a CPA firm consultant based in Austin, Texas.

From the BILLiverse

In the sixth column in this series, Bill Reeb, CPA, continues the conversation on succession planning. Over the past five columns, we've covered how to pay your partner for his/her value in the firm, pinned down a mandatory sale of ownership date (MSO) so that you can phase partners out of their leadership roles at pre-designed times, outlined how to manage transition (the single most abused process in succession), discussed how to find replacements for the retiring senior partners, and covered some do's and don'ts. At this point, we've come full circle and it's time to begin pulling together a succession plan.
Take a look.
Read Reeb's Commentary

Marketing Tip: Investing in Your Niche to Achieve Success

In the last article, Krista Remer and Jennifer Wilson from *ConvergenceCoaching LLC* explored some of the strategies to consider when developing new niches for your firm. In this piece, they will discuss the specifics of a written niche plan and other methods to help your niche practice succeed.
Learn More

New Survey Results: CPA Firms Rebound from Recession

The new 2013-14 Rosenberg Survey shows that revenues and profits are surging faster at CPA firms than at any time since the banking crash of 2007. In the following article, Rick Telberg, CPA, discusses the survey's findings and its top five emerging trends.
Learn More

2013 Tax Software Survey

More than 5,000 preparers evaluated the tax software they used to prepare 2012 tax returns in a survey conducted by *The Tax Advisor* and *Journal of Accountancy*. Despite challenges caused by the late enactment of extender legislation in the American Taxpayer Relief Act of 2012, most respondents rated their software's performance much as they had in previous years.
Take a look at this *JofA* Article for the full report
http://www.journalofaccountancy.com/Issues/2013/Sep/20137848.htm

When is a Partner "Retired?"

When a longtime partner or employee retires from a CPA firm, a sense of loyalty often compels the existing partners to allow the individual to have a symbolic role at the firm. This can include a courtesy title, office space, and invitations to company soirees. While this may seem like a small reward for decades of hard work, it can pose significant risks to the firm from a legal standpoint.
Read this *JofA* Article
http://www.journalofaccountancy.com/Issues/2013/Sep/20138239

How to Network and Find Clients Across Borders

Companies increasingly are investing across borders. That includes foreign companies establishing operations in the United States or Canada. What is the best way to network across borders and attract these potential clients? Take this *Journal of Accountancy* quiz to find out if

you have the traditional skills and social media savvy to land international business opportunities.
Learn More
http://www.journalofaccountancy.com/Issues/2013/Oct/20137948

SUCCESSION FUNDAMENTALS – PART 6

BY BILL REEB, CPA, CITP, CGMA

We have finally come full circle on this discussion. We have gone from discussing how to pay your partner for his or her value in the firm, covered why establishing a mandatory sale of ownership date (MSO) is so important, outlined a reliable transition process, talked about some considerations for finding replacements for the retiring senior partners and reviewed some important considerations when establishing policies regarding the role of retired partners. We are now at the stage of pulling together a succession plan.

Everywhere I turn, I overhear someone talking about, being asked about the status of, or referring to their need to develop, a succession plan. As a matter of fact, for the past 12 years through surveys with PCPS, we have been asking firms to share with us whether or not they have a succession plan in place. When you consider the responses to this question from the PCPS Succession Institute Succession Management surveys conducted in 2008 and 2012, clearly more and more firms are getting their act together, documenting their succession management strategy and thinking through the ramifications of retiring one or more senior owners. Here is the question we asked along with summary data from both surveys:

We currently have a written, approved succession plan in place:

		2012	2008
Yes		46%	35%
No		54%	65%
Total		100%	100%

We then broke out responses by firm size ranges based on full-time equivalent employees (FTEs) to see how the responses varied by firm size. As you can see from the data below, generally speaking, the smaller the firm, the less likely it is to have a written and approved plan. Among firms with 15 or fewer FTEs, one-third or less have a succession plan. On the other hand, about three-fourths of firms with 100-350 FTEs have a succession plan.

	1-2 FTEs	3-7 FTEs	8-15 FTEs	16-25 FTEs	26-50 FTEs	51-100 FTEs	101-200 FTEs	201-350 FTEs	351+ FTEs
Yes	14%	25%	33%	49%	55%	75%	86%	78%	67%
No	86%	75%	67%	51%	45%	25%	14%	22%	33%

When you consider the fact that our 2004 Succession Survey showed that 19% of the firms had a succession plan, and 81% didn't, great progress has been made in this area.

With all of this progress, and so many plans in place, why is succession management still such a big concern and issue in our profession? One reason is that many of the plans have never been tested inasmuch as their first senior partner is getting close to retirement. Another, more significant, reason is that the vast majority (we would say anecdotally this could run well over 90%) of the plans are extremely inadequate because 1) they only address a few of the critical issues or 2) even the plans that address most of the issues, the level of accountability tied to consequences of rewards or sanctions is grossly insufficient.

Just to give you a perspective, most firms would call the following a succession plan:

- A schedule by age of the partners
- An estimate as to who might decide to leave when (but nothing more than that because no one has truly committed to go and virtually everyone can go)
- A schedule outlining what the firm thinks it will owe each partner based on when the group guesses they are leaving
- An analysis as to whether the firm's cash flow can afford the retirement payments
- Some list of people coming up that might be named partners in the future
- A list of clients that need to be transitioned to someone.

If this is the basis of most succession plans today, then it should be no surprise that we feel it is grossly inadequate. As I make this statement, I realize that I am now setting myself up for the logical next question, which is "If this isn't what we should be doing, then what is?" While we are not going to provide you with a mock-up of a succession plan in this column -- because to us a mock-up would put inappropriate emphasis on the look and presentation of the document --we are going to go over the components that should be addressed and customized to your firm in the plan.

Many of you may have read articles by Dom or me, or heard us say while speaking that succession isn't difficult when it is occurring within a well-run firm. The problem lies, as it does so often, in the definition of what we are calling a well-run firm. So, while we will provide our perspective on this definition in the rest of the column, since solo practitioners don't have partners or employees to pass the business on to, they will not be addressed in the remainder of this discussion. While there are many things solo practitioners can do to position their firm for maximum value upon merger or sale, that conversation turns out to be less about succession management and more about sales positioning.

Given the prelude above, it is time for us to share what we believe to some critical steps and processes creating the foundation of a well-run firm. But before we cover the order in which we review and assess these component parts, I want you to understand that this infrastructure is full of moving parts. So that means that as you work through one set of issues, even though you might feel like you have reached consensus and made good decisions, each step needs to be thought of as a "current stake in the ground" rather than "decisions made in concrete." This is because many of the decisions have overlapping implications and unintended consequences that have not been considered fully since we are trying to address the decisions one at a time, almost in a vacuum. Therefore, while we will be putting "stakes in the ground" to build a plan around, we also have to understand that as we get further into the process, we may need to adjust any or

all of the earlier stakes as we learn more how previous decisions are interacting and impacting our ability to take fair and positive steps regarding the next set of decisions.

So we need to move forward one step at a time knowing full well that we may have to go back to the beginning as the entire picture of what we are building in our succession management plan becomes clearer.

With this in mind we start with governance because it clarifies who can make what decisions, as well as identifying the checks and balances put in place within each firm's decision-making system. We feel it is important to make sure that the firm has a clear definition of the roles and responsibilities of key people and groups, which commonly include:

- Board (of partners or shareholders)
- Executive Committee (if the firm has well over 20 partners)
- Policy Committees (like the Tax and Audit Policy Committees)
- Managing Partner or CEO
- Department Heads
- Line Partners:
    - Client Service Partners
    - Technical Partners
    - Practice and Industry Niche Leaders
    - Partners Working in the Firm after Sale of Ownership (or Retired Partner Employees for shorthand)

As part of the roles and responsibilities assessment, we believe that competencies should be identified for each level within the firm. For succession management purposes, it is critical that this is addressed at the partner level, but it is even more beneficial to have a culture built around expected competencies throughout the firm.

An important next step in the process is to make sure that partners and managers understand how to manage people. Training is crucial to teach those who manage 1) how to manage effectively and efficiently, 2) a process to follow that will result in the rapid development of their people, and 3) how to provide coaching and oversight (including evaluation) to assess performance against expected competencies. Don't overlook this—managing "the way it's always been done" normally has some serious pitfalls and shortcomings that can be avoided with proper training.

The point of the three steps above is to move away from creating organizations around specific people and their unique skills, to a culture that develops people around expected skills, abilities and roles that they fill. This way, whoever becomes the audit department head is filling a role … the same role the last department head did … with expectations as to how that department will be run as well as management skills expected to be demonstrated while running it. The same is true, and even more important, when it comes to higher level positions like that of the managing partner, positions on the Executive Committee or the Board. It is critical when a person takes on one of these roles that it is not only clear what is expected, but unambiguously understood what powers have been conferred to them, together with the limitations on those powers. A fundamental to succession management is that people fill functions within the firm. Those functions are not redefined by the skills of each person who takes on a role.

Rather, the person taking on the role will be required to redefine themselves and their skills in order to effectively fulfill the expectations of the role. Another fundamental included in these three ideas is that the firm needs to move away from the more common "I will let you know when I believe you are competent and ready when I see it" type of developmental approach to one of "we will develop each of you to meet and exceed a minimum set of competencies across numerous areas important to our firm's culture and values, based on the role you are filling."

Once governance has been determined and/or fine-tuned, we are now in a position to know who can hold whom accountable with what powers and limitations. It is at this point that we move on to the next step in the succession process: the financial package for the retiring owner.

Because many firms have some part of their compensation, and often retirement or ownership as well, tied to client book, it is important to lock in a fair retirement based on how the firm is operating today. The reason is that when creating a strong succession plan, you are likely to ask all partners to agree to some changes. If you want to create an open dialogue with a senior partner about giving up some of his or her book for the betterment of the firm, which is also typically synonymous with asking that partner to give up some of their security regarding annual compensation and even more important their internal power, it is critical to give them confidence that their past efforts are being considered when creating the reward structure going forward.

At this point, we need to pin down the process for determining the retirement benefit and equity/capital amounts due the retiring senior partner. We addressed this in part two and three of this series so if you want to review this topic in more detail, just refer back to those columns. This process should include identification of issues such as:

- Vesting requirements,
- Penalties for withdrawing without adequate notice,
- Transitioning procedures for client relationships
- Penalties for inadequate the client transition
- Transition period compensation framework

Next, we address the process of distributing the ownership of the retiring partner(s) as well as awarding additional ownership to our top leaders. This often is done very haphazardly. Then, after a few partners retire, because the voting control was sloppily managed, it is not uncommon for either 1) the weakest people in the firm to have a stranglehold on the firm's decision-making processes, or 2) the ownership to be so diffused or out of balance that the decision-making process is less about maintaining and evolving a well-run firm and more about power groups, voting blocks, politics and protectionism. By the way, notice that we used the word "top leaders" in our opening sentence to this paragraph. It was intentional. A firm needs to have a compensation system that rewards its top performers and pays them well. But the top performers are not always, to the surprise of many, a firm's top leaders. The equity, that is, the ability to influence the direction, values and culture of our firm, should be allocated to your top leaders, not your top performers. In many instances, they are one and the same, which is great. But all too often, they are not, and this distinction is critical when managing the future survival, continuity, profitability and success of your firm.

After we have addressed equity, which often requires a redistribution of existing equity, it is important for the firm to adopt a decision-making philosophy. The new philosophy is simple.

> We all have opinions. We should openly share our opinions. Once we have done so, we should vote. It is okay … actually it is healthy … to have differences of opinion and strong beliefs about choices the firm should make and solutions it should implement. However, once we vote, regardless of whether your vote aligns with the final decision or not, everyone is bound to support and implement the decision made.

While most firms are better served to make all of the voting public (meaning everyone knows how each partner voted), anyone should be able to call for a private vote on any issue if a partner feels that the group is being bullied or pressured into a position, or feels like a more honest vote will occur if a ballot is taken. The firm should be encouraging key behaviors of healthy organizations which include 1) open communication; 2) creating a culture where it is okay, even good, to disagree; 3) an understanding that when a majority, or whatever voting threshold identified for a specific issue is attained, the firm will have made that decision and begin to move forward; and 4) an understanding that once a decision is made, whether you supported it or not during the vote, that you support it after the vote. The purpose of this process is to make sure that the "no" vote in an organization doesn't become more important than whatever the majority "yes" vote is. So many times, what starts out as benevolent leadership's attempt to be inclusive by building a firm around the idea of consensus eventually morphs into its dysfunctional twin where the firm is constantly catering to its weakest link --- usually the partner who wants everything to remain the same and wants never be held accountable.

We still have a lot more to review, but not enough pages left in this column to cover them. Therefore, we will pick up here next time and complete the list of component parts that you should be considering and addressing so you have a roadmap for building your firm's holistic succession management plan.

As a final note, we will be covering succession management at the PCPS Succession Summit held in both New York and North Carolina on October 28th and 29th for larger firms, and the 30th for smaller firms. You can contact PCPS for more about this workshop at www.cpa2biz.com/succession or if you have any questions, call the AICPA's project manager for this workshop Cynthia Frey at 919-402-2170.

NEW SURVEY RESULTS: CPA Firms Rebound from Recession

Revenue gains accelerate; partner incomes hit new highs; staff turnover returns to pre-recession rates.

By Rick Telberg

CPA Trendlines

Revenues and profits are surging faster at CPA firms than at any time since the banking crash of 2007, according to the profession's leading practice management survey.
The new 2013-2014 edition of The Rosenberg Survey shows CPA firms posting "their first respectable results since before the recession," according to the authors of the 194-page study of more than 100 benchmarks at 390 firms, including 19 sole proprietors, all grossing more than $2 million. (Full report available here.)

Hunger for growth

To be sure, the 2012 growth rate of 5.4% pales in comparison to the bubble years leading up to the big banking crash and it "isn't coming close to satisfying the hunger for rapid growth that burns in the bellies of the nation's most successful, ambitious firms," according to the survey.

Top Five Trends

The survey offers five "overarching observations:"

1. The strongest revenue growth since before the recession
2. Robust merger activity
3. Surprising increases in professional staff turnover across the board
4. Improved staff-to-partner operating leverage
5. A divergence in performance with larger firms outpacing the gains of smaller firms.

The 'Old Normal'

The survey finds that annual turnover among professional has jumped by much as 50% in one year, averaging now almost 18%. These results were found across all firm size ranges.
Author Marc Rosenberg calls it "a return to the 'old normal.'" He notes that today's turnover rate is about where staff turnover was at before the recession and where it has historically settled at in the CPA profession.
The 12% rate for 2011 and 2010 was much lower than historical turnover levels, Rosenberg says, "because people were hanging on to their jobs, waiting until the recession's recovery created new jobs."
The biggest causes of the spike in turnover are:

1. Staff left to go into industry, many at higher paying salaries.
2. Staff forced out of the firm.
3. Staff went to another CPA firm.
4. Staff left due to spouse relocations and/or family reasons.

In gathering comments from managing partners across the country, a few were particularly illuminating and interesting:

- "One of our major niche industries has been hiring like crazy and they don't care about economics; they will pay whatever it takes."
- "90% of our staff departures went into industry – salary offers were very high."
- "Most of our staff that left went to work for clients. All of these were good employees, but left for more money with less stress."
- "Many staff hung in' with us when salary increases and bonuses were

disappointing. Then, when the market improved, the staff jumped. There is a 'war for talent' going on."

Mergers and Acquisitions
Meanwhile, the "hunger for rapid growth" is fueling an unparalleled era of acquisitions and consolidation. "Because robust organic growth is difficult to achieve for most practices, the vast majority of firms over $5 million (in annual revenue) are aggressively pursuing mergers," the survey says. "There is no let-up in sight."
The study shows, for instance, that the largest firms, those with more than $20 million in annual revenue, can attribute 28% of their 8.6% gains to mergers. Among the smallest firms in the study, down to $2 million in annual revenue, mergers account for only about 1.2% of their 4.7% topline improvements.
Key Performance Indicators
Overall, however, the majority of firms are turning in their strongest performances in years, including:

- Billing rate increases of 2.3%
- Firmwide charge hours up 0.9%
- Growth from mergers up 1.3%

On the all-important bottom line, income per partner hit a record high $386,000, up 5.5% from the year before, which, the survey says, is the fastest one-year increase in the history of the 15-year-old survey, "surpassing the pre-recession high of 4.6%."

Rick Telberg is CEO of CPA Trendlines Research, a leading provider of actionable practice management intelligence for tax and accounting firms at cpatrendlines.com*. The Rosenberg Survey is* available here*.*

Building a Successful Niche Practice

Industry and service specialization is hotter than ever. Deep industry or service expertise enables firms to differentiate themselves from the competition and establish a reputation of thought leadership in their chosen niches. In addition, firms with well-developed niche practices focus their investments in training, service delivery, marketing, and selling in those areas and develop efficiencies that increase engagement success and profitability. Ultimately, niche firms with a strong market presence and excellent client service build a reputation that brings niche opportunities directly to them.

While the benefits of niche practice development are many, too many firms fail to make the investments needed to achieve real niche success. In this article, we'll explore practice management strategies that facilitate niche practice success.

1. **Go deep, not wide.** Firms frequently boast a long list of the industries they serve and services they offer. These lists are often aspirational and do not reflect areas where the firm has developed deep expertise or a true concentration of clients. To reap the benefits of a niche strategy, carefully choose a very small number of industries and/or specialty services in which to "go deep" in your practice development efforts. A good rule of thumb is that depth, bench strength, and practice continuity can be developed when a firm has two or more partner-level resources per niche. In a five partner firm, you would then expect to find traditional core services of audit, tax, and accounting and the ability to develop up to two deep niche specialties.

2. **Choose firm niches strategically.** When a firm commits to developing specialized niches, selecting which niche specialties to invest in can cause disputes among the leadership group, especially when partners have "pet" industries or services and resist giving up their niche in favor of another. When this is the case, partners should agree to focus niche practice development resources first on industry or service niches that have <u>at least three</u> of the following attributes:
    (1) Industries that are thriving or expecting growth in your locale
    (2) Service specialties that your firm's clients have asked for or seem to need
    (3) Industries or service areas where your firm's primary competitors do not have strength
    (4) Industries or services where you have capable leaders who are interested in and willing to own development of the niche
    (5) Industries or service areas where your firm has some experience to leverage and perhaps even client references
    (6) Industries or services that have the potential to drive additional opportunities to other industry or service areas of your firm

3. **Dedicate one owner to each niche.** One person should be responsible for the management and success of each niche, although this person may not be dedicated full time to the niche, especially in smaller firms. Even so, the niche practice leader should allocate non-billable time to plan for and grow the niche, and the firm must budget for this time. If you want your chosen niches to succeed, ensure that your compensation model allows for this administration time and does not penalize the niche owner for time away from client work. Niche practice leader responsibilities should include:
    (1) Producing a true niche business plan annually (more on this in our next article) and ensuring that the business goals for the niche are being met
    (2) Being accountable for the financial performance of the niche
    (3) Communicating status and needs internally and garnering support for the niche
    (4) Managing niche resources and coordinating with other service line leaders to share resources as needed
    (5) Developing and implementing the niche's marketing and business development strategies
    (6) Ensuring that compensation is tied to specific performance benchmarks and milestones called for in the niche plan

4. **Do not under-commit.** Firms often under-estimate the time, money, and resources needed to gain niche practice momentum and under-commit resources. This frequently results in disappointment with the success and traction of the niche. To alleviate this, niche plans should call for specific commitments of non-billable time, people, and dollars needed to ensure niche success. The niche owner should review these commitments with all partners so they are all aware of the investments required of themselves and the firm. If the niche practice leader finds that they need more partner time or more support, such as partners referring clients to the niche, they must spell out exactly what they are requesting and get commitments from each partner for those specific actions. Firm leaders must avoid stalling on their commitments or under-committing resources and support or they risk killing the niche altogether.

As mentioned above, the assigned leader for each niche will create a business plan each year and assign enough resources and marketing effort to truly develop the reputation you desire in your chosen specialties. We'll discuss the specifics of a niche plan and some other niche practice development tips in our next article. Until then, evaluate your firm's current list of niche industries and services and work to narrow or change them as needed based on the criteria above. Then your niche owners and support resources can focus their efforts on building truly successful niche practices for your firm!

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Investing in Your Niche to Achieve Success

In our last article, Building a Successful Niche Practice, we explored some of the strategies to consider when developing new niches for your firm. In this piece, we'll discuss the specifics of a written niche plan and other methods to help your niche practice succeed.

5. **Make a plan.** Each niche leader should develop a written business plan each year for the niche and gain buy-in to the overall strategies and objectives from your firm's decision makers. Developing a detailed plan will pay real dividends and provide focus for the niche practice leader and other firm leaders who will learn a lot reading the plan. Ideally, the niche plan will include the following elements:
   - **SWOT analysis**—your firm's strengths and weaknesses as it pertains to this niche and external market opportunities and threats that may impact it
   - **Market dynamics overview**—the current market conditions - both positive and also those that may present obstacles for the niche

- **Existing business analysis**—existing clients, current engagements, and revenue that this niche can leverage
- **Competitive analysis**—who the key competitors are for this niche
- **Ideal target client definition**—the niche's ideal client by size, type, location, and other factors
- **Differentiation positioning**—how this niche will enable your firm to differentiate from others in the market and what the key differentiation points will be
- **Product/service mix**—what products or services your firm will offer within this niche and other firm services that may be leveraged to support the niche clients' needs
- **Pricing**—the planned pricing and packaging strategy for services sold in this niche
- **Marketing activities**—the branding and lead generation campaigns planned in the coming year, including timing and expected outcomes or deliverables
- **Sales approach**—an overview of the planned sales strategy and who will be involved in selling niche opportunities as they arise
- **Service delivery approach**—details on the methods, tools, and resources needed to deliver services within this niche
- **Staffing/training plans**—the human resource requirements, specific staff allocations, and niche-specific training needed
- **Infrastructure requirements**—IT, facilities, and any other administrative support needed to support the niche
- **Critical success factors**—the "must haves" for the niche to achieve its intended goals in the coming year
- **Measures of success**—the specific results and outcomes your firm can expect when the niche plan is implemented, both financial and non-financial

6. **Invest in marketing.** It's critical to invest in niche marketing activities because the messages can be highly targeted and therefore yield better results than marketing traditional services. Marketing activities should reflect your chosen positioning, tell the niche story, and reach your ideal target niche clients as defined in the niche plan. Social media is a cost-effective choice to invest niche marketing time, and a niche presence can be built quickly using platforms such as LinkedIn, Twitter, and blogs to deliver valuable content. Target account selling, leveraging intelligence garnered from social media and web research, is also highly effective. Niche leaders should also invest time in internal marketing by educating firm employees on their niche's service offerings and ideal target prospects and helping fellow team members understand how to identify opportunities with existing clients when appropriate.

7. **Set and manage realistic expectations.** Delivering a written niche plan and budget each year as described above and then communicating progress at least quarterly will enable the niche practice leader to manage the partner group's expectations for performance. It's important for all firm leaders to understand that patience and persistence are required to develop deep expertise, gain a significant number of clients, develop the trust of referral sources, and develop thought leadership in a niche, which can take two to three

years minimum to achieve. While the niche is developing, celebrate the achievement of shorter-term, smaller milestones like creating a section of your web site for the niche or developing an internal CPE course related to it.

8. **Allocate more resources as the niche develops.** Firms are often conservative about hiring and adopt a "sell the work first" approach. But, when developing a niche, this approach can quickly stifle growth, burdening the niche's few experts to deliver the work and leaving no time for practice development. Instead, anticipate your niche needs and hire or allocate people in advance as the niche is building. This will maintain the momentum and keep the niche leader focused on leading, marketing, and selling.

When you invest disciplined focus, dedicated leadership, detailed planning, and diligent communication into your niche development efforts, you will achieve real and lasting niche practice success!

Jennifer Wilson is a partner and co-founder and Krista Remer is a consultant of ConvergenceCoaching, LLC, a leadership and marketing consulting and coaching firm that specializes in helping leaders achieve success. Learn more about the company and its services at www.convergencecoaching.com.