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The Growing Season for CPA Firms

For many firms, the span between the end of tax season and the pending September and October deadlines is the time to refocus and determine where both challenges and opportunities lie toward future growth.

On a positive note, growth within the accounting profession appears to be sustaining its clip of 8-percent-to-9 percent, a sign that the specter of the 2008 recession may be safely in the rear view mirror.

Last year, the top 100 firms in the U.S. grew at just under 9 percent, while those $2 million and above hovered at the 8 percent mark.

Augmenting that growth among the nation's firms is a surge in demand for a number of burgeoning client niches including business process outsourcing (BPO) – which is expected to top $30 billion end of 2017; sophisticated IT services such as SOC and IT stress audits and international tax, all of which will serve to complement the ongoing call for traditional niches such as wealth management, attest, business valuations and litigation support.

<u>What our clients are telling us</u>

While growth opportunities appear promising 2017, there are also a number of looming challenges facing CPA firms, chief among their top concerns are succession planning, recruiting, retaining and motivating staff, adopting new and efficient technologies and new business development. Our clients know that their firms going forward need to differentiate themselves from the competition and not just offer plain vanilla audit and tax services.

Below is a brief summary of four of the major areas impacting CPA firms in the foreseeable future.

<u>The "M" Word: Filling that crucial talent void.</u>

Inarguably one of the most important letters when it comes to recruiting and retaining talent in the profession is "M": Millennials.

PwC projects that currently about 80 percent of its domestic workforce is comprised of Millennials. By 2020, Millennials are projected to make up 50 percent of the total U.S. workforce.

So what's critical in retaining talent in 2017 and specifically hiring and retaining that critical labor component and future leadership of the accounting profession?

First and foremost it's salaries and benefits – Millennials are no different from previous generations with regard to making money. But they also want growth opportunities, career challenges, client contact, and not constrained by an antiquated 9-5 workday mandate.

Are your staff members expected to report to an office daily or does your technology allow staff to work remotely? Millennials will not be surprised by this perk; in fact they will come to expect it.

Younger staff and high "potentials" want a firm with a strong and updated IT culture. As a result, the number of firms using social media platforms such as Facebook, LinkedIn or YouTube to enhance recruiting efforts has spiked over recent years as 75 percent of firms over $5 million and 83 percent of firms over $10 million now employ social media as a recruiting tool.

Technology

Ideally, the firm of 2017 and beyond will earmark at least 4-7 percent of their top-line revenue on technology – the second largest investment behind hiring with half of that number earmarked for remote or cloud applications. In addition, technology and a strong IT culture made it easier for firms to consider satellite offices – allowing them to act as one. It also has resulted in firms to partially temper staff shortages, particularly in the case of multiple offices which allows firms to leverage work and frees up the partners to cross-sell services.

Your IT infrastructure should allow access to integrated applications for practice management, accounting, tax, document management and workflow and many firms have now adopted a BYOD (bring your own device) policy – authorizing the integration of personal smartphones, tablets and laptops to access company information and applications. While not quite yet in the mainstream, future technologies such as blockchain, which experts believe will revolutionize the audit process, and AI implanted into software applications promise to have as large an impact on the firm workflow process as did the introduction of the PC back in the early 1980s.

Succession Planning

Baby Boomers are retiring to the tune of 10,000 per day. Closer to home, the AICPA projects that in just three years, 70 percent of its 400,000-plus membership will be eligible to retire, while 60 percent of the equity partners in the U.S. are over the age of 50. One person turns 65 in the U.S. every eight seconds!

In its quadrennial Succession Planning survey, , the AICPA's PCPS section reported that 80 percent of the firms they surveyed expect succession planning to be among the most important issues they will face over the next decade. Adding to that statistical concern is that less than half of those firms have a formal succession plan in place, while 70 percent of CPA practices with 15 or less employees have no plan for succession. This has impacted valuation of firms and has ushered in a number of new alternative deal structures for succession plans.

Thus, firms who have procrastinated with regard to transition are faced with the prospect of either entering into a merger or turning out the lights for good. Ideally, transition planning should begin a minimum of five to seven years from when an owner or partners want to slow down from a full-time role. While that may seem like a protracted timeline consider this: Many CPAs only see the majority of their clients in person once a year – during tax season when they drop off their organizers. Therefore if an equity owner wants to slow down in five years that's just five client visits to conduct that all-important handoff to a successor firm and ensure client retention – critical to the success of any merger.

Merger Mania

The dearth of succession planning is a natural segue into the merger frenzy that has gripped the profession over the past five to six years. Since 2012, the profession has recorded more than 500 mergers and most likely scores more of small M&A deals that fell under the radar. In a recent survey of nearly 2,000 firms some 31 percent of firms between $5 million and $10 million in revenue acquired a firm last year, while nearly one-quarter of firms over $10 million absorbed a practice over that same period. Once seen as a growth or succession avenue, the reasons for the proliferation of CPA firm mergers have expanded to include new geographic markets as well as adding new client niches and a strategy to stave off client competition from firms in tiers above and below.

We always welcome the opportunity to chat with you about what's on your mind regarding your strategic plans. Look for our next monthly issue which will focus on the most popular exit strategies for retiring CPA firm owners and partners.