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The Evolution of the One Client Firm

As the accounting profession continues to evolve and the impact of encroaching technologies such as blockchain, AI and machine learning promising to reshape the traditional paradigm of the CPA firm, there are also internal cultural changes occurring - particularly with regard to how clients are serviced.

The traditional book of business or "eat what you kill philosophy" – once a cornerstone of a firm's owner agreement – is rapidly going the way of AOL and CDs as more firms are adopting the "one firm client" principle, where clients are often serviced by multiple partners as opposed to operating under the "your client, my client" silos.

What Our Clients Are Telling Us

Recently, we were working with a two-partner firm in the Northeast looking for a succession solution via an upstream merger. One partner, who owned a majority stake in the firm, was seeking to slow down in three years, while the other partner intended to work a minimum of 15 years and sought an equity position in the successor practice. After two meetings, and despite a high comfort level on both sides, the seller firm was hesitant to take the negotiations to the next phase.

The reason?

The successor firm was a traditional eat what you kill practice while the seller firm had migrated over to the one firm client model several years before, thereby creating a wide cultural rift between the parties. The seller firm did not want to enter into an affiliation that would revert it back to a book of business client service matrix. In fact, the successor firm has now engaged us to help them adopt the OFC philosophy.

Advantages of the OFC model

While the majority of today's senior partners most likely ascended to their current ownership and compensation status on the on the eat what you kill model, that method was often inequitable to other members of a firm whose position may not have afforded them the opportunity to build a book of business or obtain equity – central in most practices to such issues as governance. The OFC practices tend to be more democratic – i.e. 1 partner, 1 vote, whereas under EWYK such issues are usually based on equity or book of business managed. For example, how can you calculate a fair compensation structure or governance voice for the quality control partner? Surely their contribution to the firm is as critical as a "rainmaker" partner.

With regard to transition, when one or more partners are servicing a client, it eases the implementation of a succession plan for a retiring partner or one who wants to slow down

from full time. Therefore, if equity is not tied directly to a partner's book of business, it doesn't de-incentivize them from transitioning.
With regard to compensation the EWYK firm is predicated on book of business while the OFC is more geared toward defined role and often rewards partners for their contributions in creating value. When an EWYK partner retires, his/her buyout is based on equity or the book of business managed, while the OFC partner is more often than not based on a multiple of compensation. In OFC firms compensation is traditionally more tied to your true value in your firm as opposed to just your equity position for example.
Below is a typical scenario of a start-up firm whose ownership agreement was based on equity and how, many years later, it evolved into an inequitable compensation and ownership structure.
When Firm ABC opened for business partner A began with a $500k book which at the time represented roughly a 60 percent ownership stake or about $300K. However some five years later, the firm had grown to $1.2 million, so now partner A's 60 percent stake in the firm is $720K and harder to justify especially if he didn't bring in that business. So to protect his/her interest he rejects the OFC philosophy and clings to as much of his/her equity stake as he can.

The profession's march toward OFC

Recently the PCPS section of the AICP polled firms in seven tiers ranging from 1 owner or full-time equivalent to firms with 200 or more FTEs who indicated they would be transitioning to the One Firm Client Model from the traditional books of business. The survey revealed the following in terms of percentages:

- 1-8 FTEs 22 percent
- 8-16 FTEs – 36 percent
- 16-26 FTEs – 53 percent
- 26-51 FTEs – 61 percent
- 51-101 FTEs – 47 percent
- 101-201 FTEs – 76 percent
- 201-plus FTEs – 62 percent

In Summary

It's often difficult for partners to let another person assume their client responsibilities. A strong leadership at a firm is critical to manage partners hesitant to transition clients as they near retirement or slowing down. Client transition from one member of the firm to another needs to be a seamless "non-event" that occurs over time. Therefore plan at least a two-year transition during which the internal successor is in place while the retiring owner participates in the transition process. And don't hesitate to place financial consequences on the buyouts of partners that fail or refuse to follow the client transition plan.