M E M O R A N D U M

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"Stayin' alive!' – Is that all your firm is doing? "

If you are starting to sing the great 1970s song by the Bee Gees, then this article may be just what you need. The landscape that accountants and other professionals now traverse is filled with detours, dead ends and even landmines. And if anyone tells you that building a firm is easier today than before, have them spend a few days at your office. And the size of your firm makes no difference – from sole practitioners to super-regionals, every firm faces the same fundamental questions.

Changing landscape

Everyone knows that over the last 10 years the landscape has changed. A brief listing of the major changes would include the impact of the Sarbanes-Oxley Act, outsourcing, succession-planning dilemmas, the shortage of qualified staff, the paperless environment, greater competition, and the Internet and intranets.

There will always be changes. The real question is, how have you changed? Are you still doing the same thins you did 10 or 15 years ago? Still offering the exact same services? Still trying to manage the firm the same way? Do you still have the same partners?

Taking control

It is never too late to take control of your firm. There are two ways to grow a firm. You can randomly accumulate clients and then fit your services to meet their needs, or you can define your market, develop your skills in terms of the needs of that market, and then project your ability to meet those needs.

Many firms today are still closer to the random accumulation of clients than to defining their target markets or markets.

You can only take control of your practice by realizing that it is the client who is at the core of every practice, and not the professionals in the firm. The success and growth of your practice is a function of understanding the target client base and your access to that base.

Redefining your practice

While some accounting firms have only one target market – an industry or a service (family office, physician groups, litigation support, etc.), most firms are at the other end of the spectrum they have too many different types of clients in different industries.

Let's define a market as a cohesive group of consumers with a common need for one of your services, and you reach this market by a common need for one of your services, and you reach this market by a common media. For example, your firm has expertise in estate planning and it has targeted empty nesters, 55 years and older, with a net worth of $5 million or more.

Here is a simple exercise to determine how many markets you are trying to serve. Have each partner separate their clients into individual–only clients and business clients. For individuals, use adjusted gross income as a qualifier. For example, segment clients with an AGI of less than $100,000 those with $100,001 to $300,000, and those with $300,001 and above. Each one of these segments needs a different level of service from your firm.

Do the same thing with business clients, but segment them by industry. For example, real estate, auto dealerships, physician groups, service firms, financial groups, service firms, financial institutions, etc. Then determine the key markets on which you want to focus.

Her are some questions that will help you determine target markets for your firm:

- What industries do you have a real interest in?
- Do you have the skills to satisfy this market's needs?
- Is the local market large enough to support the firm, or do you have to expand geographically?
- Is the market growing, stagnant or declining?
- How profitable can you serve this market?

Culling clients

Once you have accomplished the above, it's time to cull your client base. While there are many ways to accomplish this, I like to use the chart below.

Place your clients

Profitable/ In target market	Unprofitable/ In target market
Profitable/ Not in target market	Unprofitable/ Not in target market

The first this to do is to determine client gross profitability. You can determine gross profitable by taking the cash collected from serving the client, less the cost of time to service the client. I also recommend that you include owner cost in the calculation. A general rule of thumb is that gross profitability should be around 66 percent.

Now each client will fall into one of the four segments. Profitable clients in the target market quadrant are keepers, while unprofitable clients in the target market quadrant need additional analysis. Can they become profitable, or what is the justification for keeping them?

Profitable clients in the non-target market are keepers, provided that they are not taking resources away from your target clients. Unprofitable clients in the non-target market quadrant need to be fired as soon as possible. It is only after going through this that you can start to redefine your firm and develop effective marketing strategies to reach your target markets. The more specialized knowledge you bring to the client, the more value the client receives. And we all know that clients who receive greater value are willing to pay a higher fee.