

## Are You Missing The Next Generation Of Clients?

In the previous edition of The General Journal I raised the big issue facing many accounting firms, an ageing client base. If 30 percent of your fees come from your top 20 clients who are baby boomer business owners, you need to start marketing to the next generation of younger clients and quickly!

A staggering 41% of Australian businesses are forecast to change hands in the next ten years which represents the largest shift in business ownership in Australia's history. These younger business owners will need to source an accountant and to capitalise on the opportunity you need to make sure you appeal to the next generation of business owners.



Not only that, a combination of younger clients and the demographics of the profession suggest you'll also have a younger generation of staff in your office. They will be critical to your long-term success given they understand the technologies (paperless office, Facebook, Twitter etc.) and values that shape the mindset of the younger client. They hold the answers to what it will take to transform and sustain a practice of the future. Learn from them and at the same time, teach them to build lasting relationships that will be the foundation of the firm's future client base.

Let's look at some of the characteristics of the younger generations, their likely impact on your firm and some strategies to win their business.

- The Millennials (under 28) and Gen Xers (29-43) are most comfortable with online tools and they have access to information like no other generation before them. They know where to find that information, Google is their best friend and social media is a big part of their lives.
- They do all their banking online and are comfortable exporting electronic bank statements to automate the bank reconciliation process and track expenditure. If your practice does a lot of data entry and client bookkeeping you need to think about re-engineering the practice because the next generation won't want bookkeeping services from their accountant. They are computer literate and see compliance as a commodity.
- Their online activity combined with a chronic shortage of young accountants demands that you have a website that appeals to Gen X and Y candidates who will Google you before they even consider applying for a job. According to these groups, only dinosaurs and 'dud' accountants don't have a website.
- Younger generations are less likely to use an accountant although increased regulations and tax law complexities could change things. The growing use of online e-tax services and the proposed introduction of standard tax deductions from 2013 support this prediction.

Clearly, you will need to develop innovative strategies for a drastically different client base and the next generation of business owners will demand you focus on the future, not the past. Consulting is fundamentally a proactive pursuit as distinct from compliance work that is reactive. Consulting influences the future but compliance is all about the past. Not every accountant can transform themselves into a consultant overnight but most good accountants intuitively move beyond tax returns and financial statements and offer insight and counsel to their clients. The next generation will want advice about:

1. GROWTH – help me grow my revenue and my wealth
2. PROFIT – help me improve my business profitability
3. CASHFLOW – help me understand my cash situation and free up my cash flow
4. ASSET PROTECTION – help me protect my assets
5. SUCCESSION – help me plan the sale of my business or develop a succession plan

### Create Capacity

To deliver value added services beyond compliance you need to have spare capacity. Many firms think capacity simply

## Are You Missing The Next Generation Of Clients? (continued)

comes from external sources such as employing more staff, however, it starts internally by becoming more efficient. Improving the quality of client records will reduce the time you spend on each and every compliance job, reduce turnaround times and eliminate write offs. Most importantly, up to date financial data lets you make informed business decisions so you can focus on value added, business development work that gives clients a reason to provide you with a referral.

The objective is to run out of compliance work so you have the capacity to deliver value added business advisory services and promote your range of additional financial services. Providing awesome service keeps the referral pipeline flowing but a word of caution, you need to be selective about the type of client you are targeting. Winning new, poor quality clients who bring computerised shoeboxes to your table will make you and your team very busy, but it probably won't translate into profits. These type of clients soak up valuable staff resources and capacity which limits the delivery of what clients really want - strategic planning and business advisory services.

When I ask Partners and Principals what percentage of their clients they (a) love, (b) tolerate or (c) hate, I generally find about 20 percent fall into the "hate" category. This is a staggering statistic that means on average, one day a week they are servicing clients they dislike! The solution is to grade your clients and fire the C and D graders. It just sounds so logical yet many accountants are reluctant to 'fire' clients because they are petrified of losing revenue and lack the confidence to replace the lost fees. This is particularly the case with smaller firms who perceive a reduction in gross fees also means a reduction in the value of the practice based on the 'cents in the dollar' valuation method. They tolerate 'computerised shoebox' records, accept write offs, discount and under cut the competition to win compliance work. Finally, they hope clients will refer their colleagues but 'hope' is generally not an effective marketing strategy.

If you're planning to ramp up your marketing efforts in a bid to win a consistent flow of new clients you need to create capacity to service them and satisfy your existing clients at the same time. In the current 'green' era, we know that one person's waste might be another person's raw material, so transitioning clients that don't fit your practice will help create some capacity so you can target new business. In the process you have a much greater chance of replacing the clients you 'hate' with clients you enjoy working with. You'll also end up building a better, more valuable client base.

### Getting Started

You need to be more than just the annual bean-counter because clients primarily want to grow their business and their wealth. This could mean sitting down with them and planning their business cash flow, discussing negative gearing or developing a game plan to improve their financial position. Help them build a better business and in the process you'll develop a more profitable, valuable and rewarding accounting practice.

The next generation of business owners will be more demanding and you'll need to adapt to their online habits. If you are looking to develop a marketing plan, re-engineer the practice, create some capacity or transition to consulting we are only a phone call away.



Pat Camm

## Websites - Why Is It So?



The latest ABS statistics claim 81.3% of businesses in Australia have internet access yet less than 30% of accounting firms in Victoria have a website. This prompts the question made famous by the late Professor Julius Sumner Miller, "Why is it so?"

Clearly a lot of accounting firms don't recognise the importance of a website. I estimate that 75% of Victorian accountants' websites are just electronic billboards that simply list the 'who, what and where'. This suggests accountants don't understand the primary purpose of a website - to generate new business leads.

Referrals remain the most important source of growth for accountants, however, a 2009 survey of more than 200 buyers responsible for purchasing more than \$1.7 billion in professional services suggest that a web based marketing strategy has never been more important. The HubSpot chart confirms the fact that 3 of the top 10 ways clients now find and learn about you are online. Ignore this at your peril.

You can only make a first impression once with a prospective new client and increasingly your website will be the first thing people 'meet'. An amateurish website or no website at all is not the type of impression you want to make with a potential new business client or employee.

What do the 70% of firms without a website say when clients ask, "Do you have a website?" or "Can I check you out on the net?" You can only tell them, "It's under construction" for so long.

If your ageing client base needs an injection of younger clients, you can't afford to be without a website. It should sell your services to potential clients and also offer benefits to existing clients. It can tell people who you are, what you offer and most importantly, why you should be their accountant. Available 24/7, highly visible and accessible it gives you the opportunity to present your firm and the services you offer in the most positive light. It needs to be more than just a billboard and should 'talk' to your niche markets with relevant, quality content.

Given the current shortage of accounting staff, your website also needs to double as a recruitment tool. The traditional employment ad is of limited benefit in today's competitive environment and without a website you have virtually no chance of attracting the best Generation X and Y candidates. Before they apply for an advertised position they will 'Google' you and thoroughly review your website. Make no mistake, staff and partner profiles are important and they will check the careers section to see if you offer ongoing training and staff incentives. Your website must appeal to this demographic, send the right message, sell career benefits and be up to date.

To illustrate the pulling power of websites let's look at a case study of one of my top clients, Linda McGowan. She is a sole practitioner based in inner city Brunswick and in the past 12 months her website ([www.lindamcgowan.com.au](http://www.lindamcgowan.com.au)) has generated more than \$100k in new fees. Fact. As her website gained traction with her various niche markets she decided to add more niches. Given her husband plays in a band we wrote some content that targets musicians and artists. To date this has already generated more than \$28,000 of new fees and while musicians may not be your cup of tea, it proves niche markets and websites work. I really struggle to understand why some firms continue to build billboards and others are simply in denial and think websites are a waste of time and money.

Content is king and if you produce great content, clients will come to you. Produce great service and your clients will share your story and refer new clients. Creating a content rich website from scratch that targets niche markets can be a lengthy process. There is no silver marketing bullet for accountants that guarantees you \$20k, \$50k or \$100k in new business every year but without a website you are not in the game. So many firms look for a quick fix and buy a website 'off the shelf' that contains nothing but a series of outbound links to the ATO website. Let me tell you, your clients don't want to read content from the Tax Office website. Being 'outbound links' they don't help your search engine ranking and these websites don't



Source: RainToday, How Clients Buy 2009 Benchmark Report, 2009

HubSpot

## Websites - Why Is It So? (continued)

attract prospects. You end up looking just like the other hundred firms using the same template when your website strategy should be to differentiate yourself in a crowded market.

To be blunt, if your current website isn't driving new business then it's time for a new website. Rome wasn't built in a day and your website will always be a work in progress but as it generates more new business you can invest in some additional features. For example, Linda has bolted on a client log in area and she recently added some of our downloadable e-booklets and e-brochures to her site. She is now exploring some new technology around her niche markets and is looking at adding a blog and some social media links in the near future.

Of course, once your website does its job and generates leads and enquiries from prospects you need to 'convert' them to clients. I spend a lot of time coaching accountants through this process but that is a topic for another day. The point is, building a great website is not enough. You also need to look at some search engine optimisation (SEO) to make sure you get found by the search engines. If you Google 'musician accountant' or 'accountant musicians' you'll find Linda's website is at the top of the rankings. SEO is a strange science but your first task is to identify your niche areas and develop quality content that embeds keywords and phrases. From there you can build inbound links from dozens of other websites (Hotfrog, True Local etc.) that will lift your search engine rankings.

A lot of practitioners are looking to buy fees as part of their growth strategy and I can assure you that vendors are checking buyer's online credentials. If they find a billboard (or no website) you certainly don't enhance your chances. Don't get me wrong, there is nothing wrong with buying fees but if you have no marketing plan or strategy all roads lead to nowhere. My advice for practitioners in buying mode is make sure you invest in your own practice before you invest in someone else's. We have helped dozens of firms in the past 6 months create a 15-20 page marketing plan that covers everything from branding, logo and slogan through to niche markets, websites, brochures and referral programs. All you need to do is pick up the phone.

The website we have produced in conjunction with the Cashflow Manager group incorporates content for niche markets including tradespeople, business start ups, clients buying an investment property and SMSF's. The website is exclusively available to Cashflow Manager 'Inner Circle' members and for only \$990 upfront and \$49.50 per month you can be live in a few days with a content rich website.

We are committed to helping you succeed and if you need any help with your marketing plan or website call us today.

## Cashflow Manager & Mac Computers

The Cashflow Manager group do not support its software on any hardware platform other than an IBM based PC running Windows XP, Vista or Windows 7. However, the current range of Mac's allow you to convert to the IBM based PC platform via two methods.



**Option 1** - All new Mac's come with the Boot Camp program pre-installed under the Utilities icon. Once set up, this allows the computer to be started using either the Mac's Leopard operating system or a different operating system such as Microsoft XP or Vista. To use the Boot Camp feature you first must install a licensed copy of XP or Vista on the Mac (as Microsoft operating systems do not come pre-installed on a Mac). This is a simple process and only needs to be done once. Once the XP or Vista operating system is installed you are given the option of using the computer in either Mac or Microsoft mode each time you start the computer.

The next step is to install the Cashflow Manager software, to do this simply start the computer in Microsoft mode and install via the standard Cashflow Manager installation instructions.

**Option 2** - Using emulation software called 'Parallel' which costs approximately AUD \$99 or "Fusion" (similar price). These programs can be placed in the program dock (similar to any other Mac program) and opened at any time while working within a Mac environment. The user can then toggle between the two platforms (Mac or Windows). We have not tested Cashflow Manager on this type of system and cannot guarantee any support if a compatibility issue arises or a failure occurs on the Macintosh and 'Virtual PC' system.

Please contact Cashflow Manager on 1300 887 868 if you or your clients have any queries in relation to running Cashflow Manager on a Mac.

## Practice Values - The 7 Key Factors

Accountants often ask what their accounting or tax practice is worth but asking that question is a bit like asking, "What is my house worth". For practices with less than \$1M in gross fees we have some basic guidelines but each practice, like a house, has some distinguishing features that may cause the price to vary. Let's look at seven key factors that influence values.



### 1. Future Maintainable Recurring Revenue

When you sell your practice you are primarily selling your client database and the expectation that those clients will return at least annually. Where there is a perception that the level of recurring revenue may fall, the sale price is affected. Future maintainable fees is the number one most important valuation variable for smaller firms.

### 2. Profitability

Generally, a more profitable practice will sell for more than a less profitable one. Firms with higher charge out rates and workflow efficiencies are more attractive to buyers because that usually translates into a better bottom line. Given two practices with identical gross revenues, the one with the higher profitability will attract more interest from buyers.

### 3. Size

The size of a practice is important because it impacts on the number of potential buyers. The market is littered with buyers willing and able to buy a practice with \$300,000 in fees as opposed to a firm with \$800,000 in fees. Prices are determined by supply and demand and a larger pool of potential buyers usually means a more competitive market.

### 4. Location

Location is a key valuation variable because it will also impact on the number of potential buyers. A firm in an inner city area will attract more interest than a practice in the outer suburbs who in turn will generally attract more interest than one located in a country town. The location within a city is also important. For example, an inner city or bayside practice would currently attract massive interest while a practice in the northern suburbs would only attract a small number of buyers. This is obviously cyclical and demand in some country areas outstrips supply while other towns have no registered buyers.

### 5. Dissection of Fees

The breakdown of fees between individuals, businesses, SMSF, audits and consulting is another factor. The biggest distinction is with I returns that generally are only worth 50 to 60 cents in the dollar. The proposed introduction of standard tax deduction amounts for individuals could further complicate valuations. Buyers generally want practices full of business clients and can potentially pay in excess of dollar for dollar for that ideal type of practice.

### 6. Terms

It is too simple to value a practice without knowing the sale terms on offer. On the surface the following three offers for a \$400k practice may appear to represent the same value, however, they are certainly not equal! Because of the wide variety of terms used, vendors who are flexible can often appeal to a wider market.

- One buyer offers \$400,000 cash at settlement
- A second offers a fixed price of \$400,000 with a \$100,000 deposit and the balance (with interest) over the next 3 years
- A third buyer agrees to pay \$400,000 with a 20% deposit and 20% of fees collected each year for the next 4 years

### 7. Negative Factors

There are a number of issues that can have a negative impact on price. For example, anything that can affect the buyer's perception of how many clients will eventually be retained. Buyers want to see an upward trend in gross fees and the first sign of decline serves as a warning that can trigger a much higher retention amount. Common problems include poor work

*The greatest compliment we receive from our network of 2,000 Victorian and Albury based Accountants is the referral of their colleagues.*

*Thank you for your trust and confidence.*

## Practice Values - The 7 Key Factors (continued)

papers or missing accounting records, not paperless, a lack of systems, several very large client groups, long-term leases and owners who want to retain certain clients or continue working in a reduced capacity. Vendors who are perceived as inflexible or employees who might leave and take significant fee parcels with them are other negatives.

Every experienced buyer loves to see the sign, 'For Sale By Owner'. These vendors generally don't know the pitfalls and after they have wasted countless hours of time with tyre kickers they engage a broker. A good broker provides marketing, negotiation, valuation and financing experience. Most importantly, a broker should have a big pool of buyers they have vetted to help you achieve a better price, more favourable terms and a quicker sale.

## Practices For Sale



The demand for quality practices remains high and we currently have 80 registered buyers. Supply was thin on the ground in 2010 and as a consequence, it remains a seller's market with only 3 practices available including:

- **City of Casey \$200k** – Suit a young practitioner looking to go out on their own or a home based practitioner looking to take the next step and move into an office with a substantial fee base. Not relocatable.
- **Inner Eastern Suburbs \$220k + \$80k in Financial Planning** - Total 'package' that would suit a full services firm looking for a boost in both accounting and financial planning fees.
- **Mornington Peninsula \$120k** - Home based practitioner looking to retire. General practice that would suit a start up, local home based practitioner looking to take the next step or a larger firm looking to 'tuck in' a parcel of fees.

If you are looking to buy fees and have not yet registered your interest, please visit <http://www.pjcammm.com.au/PracticeManagement/SellingorBuyingaPractice.aspx> and download and complete the 'Buyers Registration Form' and 'Prospective Buyers Agreement'. We will then contact you if a practice becomes available that meets your criteria.

## Bookkeeping Training

The bookkeeping division has been very well received since it's launch in September 2010. The service provides clients with personalised one on one Cashflow Manager training with Brien or Helen at our Malvern offices.

In most instances clients are trained to enter their receipts and payments, complete a bank reconciliation then back up their data file. We are also finding more clients want their invoice layout customised with their logo and increasingly clients are wanting instruction on how to import their electronic bank statement they downloaded from the internet. The demand for Wages Manager training is also on the rise and particularly the set up of employees and their various conditions including leave entitlements.

This relatively new training option has been very popular and it has significantly reduced the demand for the group training workshops. The personalized sessions are \$110 per hour (minimum 2 hours) and if clients simply want ongoing bookkeeping services the cost is \$66 per hour. Call our office for more details.