

INSIDE Public Accounting

The competitive advantage for accounting firm leaders since 1987

January 2009

Consultants Share Their Advice and Insights On Today's Economic Environment

No matter where you turn, ominous headlines about the economic state of the world seem to get more frequent, more negative, and more debilitating to small business owners who are increasingly confused and even paralyzed by circumstances they have never encountered before. Savvy firms, who often are facing the same economic challenges as their clients, also see this as a unique opportunity to truly step up to the role that clients have long bestowed upon them – as “most trusted advisor.”

Steve Erickson, Steve Erickson, LLC

(505) 331-9100; steve@steveericksoncpa.com; www.steveericksoncpa.com

CPAs have a unique opportunity to provide significant value to their clients at this time due to the increased number of short and long-term decisions that must be made to remain competitive and viable businesses. I think CPAs need to ask their clients what decisions they must make and then determine how they can assist their clients with advice, information, analysis and collaboration. Better client decisions will make for a stronger relationship and higher perceived value.

Now is the time to act to acquire market share and talent. I think there is a real opportunity to go up market as larger clients begin to address fees. It is also a window of opportunity to find talented accountants as some larger firms trim back their staff. ■

Gale Crosley, Crosley + Company

(770) 399-9995; gcrosley@crosleycompany.com; www.crosleycompany.com

Turbulent times always drive changes in the market, creating opportunities. We can't predict all of them. However there are some emerging. Fraud/forensics/internal controls is one. "Lite" versions of offerings are less expensive but cover the basic needs. For example internal-use only business valuations. Finally, think of offerings which build self-sufficiency. For example, individual coaching to teach construction company owners to use financial statements for better decision-making.

The best way to uncover potential and design new services is to interview clients and prospects. Find out their top issues, and develop solutions which represent replicatable new services for the market. ■

August Aquila, Aquila Global Advisors
(952) 930-1295; aaquila@aquilaadvisors.com; www.aquilaadvisors.com

Cash flow is going to mean the difference between life and death for many clients. A low hanging fruit is for firms to do a cash flow analysis. A/R management is another low hanging area that firms can help clients.

Performing an operation review of your client's business may help them through the downturn as well as make them a stronger firm when the recovery occurs.

This is an excellent time for CPA firms to spend more time with clients to understand their fears and concerns. The tender loving caring invested in your better clients will definitely pay future dividends.

The smart firms will increase rather than cut their business development activities. I've never seen a business grow by cutting expenses. Firms have an excellent opportunity (and reason) to terminate underperforming staff and partners during this economic downturn. ■

Roman Kepczyk, InfoTech Partners North America, Inc.
(480) 706-1728; itpartner@itpna.com; www.itpna.com

Be sympathetic, supportive, and positive! Many clients have seen a significant portion of their retirement savings dissipate, are feeling economic pressure in their businesses, and are concerned about the future. They are looking for their CPAs for sound business advise and direction. While none of us can predict the future, we can work to make the most of what they can control. A vision of hope and opportunity is all we need to get through difficult times. CPAs will have the opportunity to cement their relationship as the "most trusted business advisor" in the next year. ■

Troy Waugh, The Rainmaker Consulting Group
(615) 373-9880; troy@waughco.com; www.waughco.com

Be a Bear In this Bear market -Today is the first day of the rest of your life. Will you invest it wisely? An investment that I believe you should make is an investment of your time “bear hugging” your best clients. Everyone is concerned and many are confused about what to do or not to do during the current economic crisis. As their most trusted business advisor, you can help alleviate many of their issues by being proactive with meetings, phone calls, seminars, newsletters and communications regarding the present situation.

I recommend that you set up at least 25 phone or face-to-face meetings with each of your top 25 clients over the next 30 days to listen to and discuss your clients greatest concerns. Their concerns could include economic viability, tax strategies, gaining capital or expansion opportunities? If you have partners, ask each partner to do the same.

John Maxwell says, “Your clients don’t care how much you know as much as they want to know how much you care.” During tough times, many people will shy away from having difficult conversations with clients because there are so many unknowns. Yet, this is just the time to talking with your top 25 clients to let them know that you do care about them and their situations and are there for them.

There are many resources available to those who do not want to read the entire Economic Stabilization Act of 2008. Morgan Stanley has issued an excellent analysis of potential tax policy changes under President Elect Obama. If you’d like a copy, just go to their web site or send me an email and I’ll be happy to see that you get a copy. Tax Attorney Leigh Griffith authored an excellent article in the Tennessee Society’s monthly Journal titled, “The Emergency Economic Stabilization Act of 2008: What its provisions mean for CPAs”. You can access this at :

http://www.tscpa.com/Journal/November08/economic_stabilization_article.pdf

After reading either or both articles allocate about 10 minutes of thinking time for each client you are planning on calling. Sit back and think about each client and draft a few specific thoughts that may apply to each one. Then call your client and set an appointment to go visit them as soon as possible. Our clients who have done this have reported increased revenue from tax planning and capital formation projects.

Harvesting dividends and capital gains (or losses) and transferring wealth are all in play at the moment. Step out and help your clients benefit from the new environment and avoid catastrophes.

Now is a good time to hold client briefings in your office for small groups. Invite them in for a box lunch and strategy session with you and your partners. Organize three of these per week for the next 10 weeks and your clients will flock to your service offerings. You will truly be offering Five Star Service and have plenty of opportunities for offering dessert.

Every time that one of our clients performs this exercise, he or she finds one or more clients who are thinking about leaving and taking their business somewhere else. Don’t let that thought even enter your client’s mind right now. Keep your clients close by “Bear Hugging” them with proactive and insightful service. These days can be terrific days for you, if you will step out and meet with your clients. One of our client’s partner recently voted to not participate in any one’s recession. What about you?

Mind your WIP and AR like a Mama Bear - The first signs of client’s financial trouble will begin showing up in your WIP and AR. What a travesty it would be to lose large amounts of earned revenue

because the clients cannot pay your bill. You have worked hard. Your partners have entrusted you with the resources to serve your clients. Don't lose money from clients whose businesses fail during the tough times. Already there have been reports of thousands of small businesses filing bankruptcy. Many car dealers have closed their doors and there are many others in serious trouble.

I am often stunned at how casually owners treat their WIP and AR. You deserve to be fully paid for your excellent service and your partners deserve that you will raise your level of diligence and you lower the risk of squandering your firm's capital resources. Firms that allow their WIP to go unbilled for weeks and their AR to grow to over 60 days are poorly managing their resources.

We have been working with all our clients to reduce their investments in WIP and AR to less than 45 days of net fee revenue tied up in these assets. If you are having difficulty in this area, here are a few things you can do:

1. Set a target to reduce your investment in WIP and AR to less than 45 days by the end of January 2009.
2. Let all your partners, managers and billers know that you are serious with this plan by setting weekly targets and monitoring them diligently.
3. Communicate with slow paying clients around your new policy.
4. Insist on an advance retainer and a progress payment schedule for all work done in the new year.
5. Ask tax compliance clients to pay in advance or immediately upon delivery. Set up a process in your firm to make sure this happens.
6. Have serious conversations with any client whose AR balances are more than 30 days past due and get a note payment schedule in place for the past due amounts. This will enable them to move forward on your new plan of retainer and progress billing.
7. Assign a firm administrator or collections person help with calling clients, working with your billers, supplying copies of invoices, picking up checks etc.
8. Monitor your collections weekly.

We do have clients who have reduced their total investment in WIP and AR to less than 30 days, so we know it is achievable. You will hear all kinds of excuses, as we have heard. Don't listen to excuses. Expect results and you will get them.

Scour the market like a Papa Bear - During tough times, many of your competitors will bury their heads in the sand. When they have their head buried, now is the time to kick their butt. They don't even look at their own 401 (k) because they've turned into 301 (k)s. And they are not going to be proactive

with their clients like I know you will be. So now is the time to draft a list of the 25 best prospects for your services in your city or region and send them a letter or, better yet, make a phone call and offer to review their situation in relation to the tax, financing or other issues facing them during these uncertain times. If you will ask each of your owners and managers to do the same thing, you can be more successful.

Many professionals are naturally reactive and will wait until their clients call with issues before responding. If you call their clients first, then you may be able to capture some excellent market share during the next difficult months!

The next few months are years are going to be difficult for all businesses. You can be a victim of the times, or you can step up and gain market share from your weak competitors.

If you decide to have the client briefing lunches mentioned above, consider inviting one or two prospective clients to each one. This is an opportunity for your prospects to hear what your clients say about the great service they have received from you. ■

James Metzler, AICPA, V.P. Small Firm Interests
(212) 596-6039; jmetzler@aicpa.org; <http://pcps.aicpa.org>

You may also download this PDF online at: www.plattgroupllc.com/jan09/AICPA

How are CPAs across the country – and their clients – being affected by tough credit conditions and a troubled economy? That’s a question that many practitioners may be asking themselves. To gain a perspective on current conditions, I recently called together the Small Firm Solutions Editorial Advisory Board to discuss the current economic climate and how it is affecting their firms and their clients. Based on their observations and those of CPAs I’ve met throughout the nation in recent weeks, here’s what practitioners are facing.

Main Street businesses are seeing their credit tightened. Clients have had credit lines frozen or cancelled. In other cases, clients are offered credit but faced with tough covenant restrictions or requests for greater assurances about their creditworthiness. Assuming that borrowers’ sales will shrink, banks are also demanding to know how businesses plan to cut back. Clients are more frequently being asked for financial forecasts, and significant forecast assumptions are receiving more scrutiny than ever. In some areas, community banks and credit unions have moved in to fill the gap left by retreating commercial banks.

Clients associated in any way with the home building industry are in trouble—or likely will be. This includes not only construction companies, but also plumbers, electricians and even title attorneys. In some cases, suppliers are willing to offer these businesses more generous financing terms to keep them alive,

while other clients tap into personal wealth or liquidate assets to generate cash. Auto dealers are another hard-hit industry.

Individuals are also having a harder time getting credit. Some have seen existing home equity loans frozen. Even affluent clients with stable incomes are facing greater challenges getting mortgages.

Banks are under increasing pressure on multiple fronts. Their boards are urging them to increase loan quality, while the government is calling on lenders to free up credit.

Some businesses and individuals are borrowing on unused credit lines while they can. Some have rushed to take home equity or other loans now on the assumption that banks will cut off or tighten credit further in the future.

Some CPA firms are expecting their first revenue declines in years. Many practitioners are focusing on practice development after many years of strong demand for their services. Others are canceling or scaling back hiring plans. More clients may try to tackle their own returns during this busy season, but CPAs predict that experience will only make them appreciate the value of a professional's services next year.

At the same time, clients need their CPAs more than ever. While some practitioners report fee pressure, others say they have seen little resistance because clients acknowledge the value of their services. Long-time clients in financial trouble leave CPAs in a quandary. Practitioners are balancing their firms' best interests against the needs of good clients who have fallen behind in payments. When dealing with new clients, some firms require advance payments or retainers or institute pay-as-you go plans. For struggling long-time clients, approaches include sending smaller but more frequent bills; asking to be paid with a credit card; or requesting promissory notes. Older clients may be better equipped to handle the downturn. Those who have weathered previous recessions are often calmer and can draw on past experience to solve their problems. Those under 40 may have more difficulties adapting because they have never been through a real downturn. The situation is not universal. Regions that did not experience a boom during the last decade may not suffer the same level of setbacks as those that did. Elsewhere industries, including those associated with health care, are doing well. Communication helps immensely. In a time of great uncertainty, practitioners advocate reaching out to clients for whatever reason, such as asking about their business or simply catching up on their family. This can provide an opportunity to open up an honest dialogue on how to solve their problems.

On that note, this special edition also contains a client letter created by the AICPA Private Companies Practice Section with ideas on overcoming cash and credit challenges. I urge practitioners to send it as a special mailing or use it as a list of talking points to open up communication during these tough times.

During troubled times, clients turn to their CPAs for insights into how to avoid missteps and protect their businesses and investments. To help all of our members respond to their concerns, the AICPA Private

Companies Practice Section (PCPS) has created this letter that practitioners can send or email to clients with advice on surviving the credit crisis.

We encourage you to circulate it to clients to remind them that you are there to help them address the many challenges facing their businesses.

Dear Valued Client:

The recent credit crisis is just a reminder of the importance and benefits of having a sound strategy that you can use to navigate through turbulent times. Don't hesitate to contact your CPA for objective guidance in helping you make intelligent financial decisions for the future of your business. In the meantime, below are some tips to help you assess your current financial condition and start rethinking your business plan to face the current economic challenges.

1. Don't panic. It's difficult to make sound decisions if you do. To get a better sense of where you stand, begin by reviewing your cash position and anticipated cash needs. Are they in line with your business's short-term needs, goals and risk tolerance?
2. Take a fresh look at your monthly income and expenses. Have you been meeting your budgeted projections? How much of a drop in revenues can your business withstand and for how long? What are your cash-flow needs for the next 90 to 120 days? Or 120 to 180 days? Do you have sufficient cash reserves for the next 30 to 60 days?
3. Check with your lenders on the status of your credit lines. Are you in compliance with their terms? Will your bank renew their commitments at similar amounts, rates and terms?
4. Eliminate your reliance on credit by disciplining your spending.
5. Refocus on your balance sheet and how much credit you are extending to your customers.
6. If your credit lines are frozen or at their maximum limits, consider meeting with vendors and working out a schedule of partial payments that would allow continued delivery of critical materials and supplies.
7. Look into alternative types of financing. Some to be considered are loans on life insurance policies, loans from key customers that rely on your business for their materials and supplies or from labor unions, local development agencies or the U.S. Small Business Administration.
8. Keep an eye on your accounts receivable. Watch for new patterns of slow payments and follow up immediately. Review your largest and riskiest accounts to determine whether credit constraint or economic slowdown will affect their ability to pay you. Keep receivables aging current at all times.
9. Manage accounts payable more closely. Forfeiting early pay discounts may be more advantageous in preserving cash that may be needed for critical items. Keep payables aging current at all times because that's an important tool for managing cash.
10. Analyze your expenses and determine which ones can be controlled. Can you reduce spending in any areas to put less of a burden on your cash-flow needs? As necessary, communicate to

- staff/team members about the need to tighten spending. If you are a manufacturer, review inventory management practices. Are there opportunities to reduce your on-hand inventory? Service companies should make sure they're capturing all their billable hours and invoicing promptly. Have you billed all your 4 contractual items? How about all your pass-through expenses, such as billable third-party services and travel and living expenses?
11. Consider ways to pass your increased costs (i.e., fuel expense) on to your customers.
 12. Check the safety of any cash deposits you have. On October 3, 2008 the FDIC deposit insurance was temporarily raised from \$100,000 to \$250,000 per depositor through December 31, 2009. If you have more than \$250,000 in any one bank, move the excess to another FDIC insured bank. Consider investments such as CDARs (Certificates of Deposit Account Registry) to spread the risk of short- to medium-term cash you may have invested in CDs.
 13. Don't engage in panic selling of your investments. Make sure your portfolio is diversified and in accordance with your risk tolerance.
 14. Come up with a plan NOW to respond to future declines in revenues, before they actually occur. Re-think your business strategies and update projections. Review your product/service lines to identify the most profitable items and determine how to leverage for future growth in profits.
 15. Contact your good customers. Even casual discussions can lead to new business opportunities.
 16. Review all your insurance coverage, particularly any from companies with weak balance sheets. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.
 17. Calm your employees' fears about how this crisis will affect the company, their jobs and their retirement or other benefit plans. Speculation and gossip are counterproductive, so it's better to address their concerns directly. For help in understanding some of the issues facing small business, you can turn to the CPA profession's free Financial Literacy Web site for consumers, <http://www.360financialliteracy.org>. It offers tools and tips to help you make important decisions for your business and your own personal financial planning needs.

Finally, remain focused on your own advantages. Remember that:

- Small businesses have greater flexibility and can more easily adjust to changes in the economy than their larger counterparts.
- Small business owners can use the recent crisis as an opportunity to buckle down, refocus, assess and make their company more financially sound, disciplined and less reliant on credit.

During tough times, it's important to maintain communication with your CPA firm, your trusted adviser. Remember that you are not alone. We know and understand your business and the challenges you face, and we can work with you to navigate these turbulent times. We can help you gauge your current situation in the wake of recent market events and create a sound business plan in response. Contact us today for expert advice on how to maintain your company's success. ■ - - **James Metzler, AICPA Vice President, Small Firm Interests** . ■