CPA firms cautiously optimistic

Survey shows firms expect some growth in 2010

BY LIZ GOLD

Roughly 80 percent of CPA firm executives who responded to a growth prospects survey for 2010 believe that their firms are well prepared to take advantage of the approaching economic recovery.

Though expressing a cautious optimism regarding their firms' growth this year, more than 90 percent of the respondents admitted that the benefits of the turnaround would take longer to realize than expected.

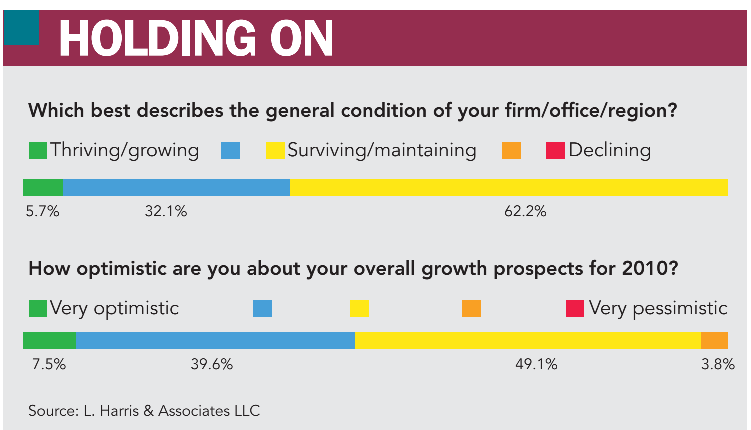
The CPA survey, which was compiled in December by L. Harris & Associates, a Minneapolis-based consultancy to professional service firms, spotlighted the moods, trends and business practices of a cross-section of 49 accounting firms.

WHAT'S ON THEIR MINDS

Some 54 managing partners, directors, chief executives and assorted other senior-level management responded to the poll, with 33 of the firm, region or office for which they responded as "thriving/growing," with the remaining 62 percent reporting that they were "surviving/maintaining."

Tax practices exhibited the most positive results, with 53 percent of the respondents reporting that area was "thriving/growing." And, according the survey, tax is expected to have the most opportunities for growth this year, followed by management services, with audit ranking third.

Roughly 80 percent of the survey's respondents are going to be helping drive growth in the next year by selling more of their existing services to both current and new clients, while less than half of those polled said that they would rely on new products and services for growth. At the same time, well over 90 percent felt that they weren't spending enough time trying to upsell or cross-sell their services to existing clients.



out of the 49 participating firms hailing from the Midwest.

The survey was broken down into six parts: Current Firm Condition and Prospects for Growth; Growth Strategies and Tactics; Business Challenges and Threats; Profit Margin and Profitability Management; Business-Building Activities; and Existing Client Retention/Defection Rates.

"I wanted to understand what's on the minds of leaders in my target markets so that as I meet with them, I'm sure I'm addressing their concerns and adjusting my services to be relevant to them," said Lee Eisenstaedt, founder and managing director of L. Harris & Associates.

At the time of the poll, 38 percent of survey participants described the current condition

Sixty percent of the firms canvassed said that they planned to make strategic hires, as well as boosting their marketing and business development dollars.

The firms acknowledged, however, that the biggest challenges they face in successfully implementing these growth strategies is the need to significantly increase their skill and the amount of time invested in cross-selling and upselling — an admission Eisenstaedt claimed he was surprised by.

"I wasn't expecting the need to improve both the skill and the time spent cross-selling and upselling to be as much of a concern as the survey indicated," he explained. "This isn't a new concern to many of them, so changing the behaviors that address it is not simple, but given the high ROI that an investment in cross-selling and upselling offers firms, it's something that is worthy of more focus and attention."

Giving those areas greater attention was cited by survey respondents as the biggest opportunity to grow both their top and bottom lines — with 86 percent "agreeing" or "strongly agreeing."

Although nearly 50 percent of the participating firms cited mergers and acquisitions as a key factor in their growth plans for this year, only 20 percent of the respondents were concerned about industry consolidation — though over 75 percent were "concerned" or "extremely concerned" about the prospect of larger competitors going down-market to grow their market share.

Firm leaders also revealed that they aren't seeking growth by changing their hourly rates and fees. Nearly 90 percent of respondents don't plan to lower their rates further. That said, 51 percent of survey participants had concerns about pressure to further reduce their rates.

Nor are firms relying on physical expansion: Less than 5 percent said that they were relying on opening new offices (but not acquiring them) to boost growth, whether inside or outside of their current geographic area.

PLENTY TO THINK ABOUT

The survey also lists areas of "unrealized potential" that could ultimately affect accounting firms' profit margins, including shifting work from higher- to lower-level staff; assessing engagements to see if they are overstaffed; staff cutbacks (though 45 percent of the respondents felt that they had eliminated as many of their revenue-producing, client-serving employees as possible); and more discipline regarding general and administrative expenses.

Survey respondents cited pricing as a primary reason for losing bids to weaker competitors. "Part of this may be due to the lack of a common definition of 'weaker competitor,'" opined Eisenstaedt. "My experience is price is usually No. Five or Six on a list of reasons for losing a bid. If there's a gap on the factors that are more important, then price is generally the tie-breaker."

Some 82 percent of the participants felt that they were investing the right amount of time preparing for the economic recovery.

For more information on the survey, and to view the complete results, visit www.lharrisllc.com. AT

inbrief

SEC APPROVES ENGAGEMENT REVIEW STANDARD

Washington, D.C. — The Securities and Exchange Commission recently approved a new auditing standard that aims to toughen the requirements for concurring reviews of the work of audit teams.

Auditing Standard No. 7, *Engagement Quality Review*, expands the existing requirements for concurring reviews, and requires the engagement quality reviewer to evaluate the significant judgments made and related conclusions reached by the engagement team in forming the overall conclusion on the engagement and in preparing the engagement report.

The standard also requires the engagement quality reviewer to perform certain procedures designed to focus the reviewer on those judgments and conclusions, such as holding discussions with the engagement team, reviewing the documentation, and determining whether to provide a concurring approval of issuance.

The new rule is effective for engagement quality reviews of audits and interim reviews for fiscal years that began on or after Dec. 15, 2009. Accordingly, for interim reviews of public companies that file financial reports on a calendar-year basis, the standard is applicable beginning with the quarter ending March 31, 2010.

MOSS ADAMS CHAIR TO LEAD PRIVATE COS. PANEL

Seattle — Rick Anderson, chairman of accounting firm Moss Adams, has been named chairman of a blue ribbon panel that is being set up to address how U.S. accounting standards can best meet the needs of users of private company financial statements.

The new panel, which was announced in December, will be a joint effort of the American Institute of CPAs, the Financial Accounting Foundation and the National Association of State Boards of Accountancy.

Anderson currently serves on the FAF Board of Trustees. He was a member of the AICPA Council for three years. Other members of the panel have not yet been announced, but the group is expected to represent a cross-section of financial reporting constituencies, including lenders, investors and owners, as well as preparers, auditors and regulators.