

TAKE YOUR FIRM TO THE NEXT LEVEL

A CASE STUDY



WIN THE BEST CLIENTS
RECRUIT AND RETAIN TOP PEOPLE
AND
INCREASE PROFITABILITY

AUGUST J. AQUILA
ROBERT J. LEES

Take Your Firm to the Next Level *A Case Study*

Learn how to:
Become the firm of choice
Win the best clients
Recruit and retain the best people
Increase profitability

AUGUST J. AQUILA
ROBERT J. LEES

Authors of
*How to Engage Partners in the Firm's Future
Leadership at Its Strongest*

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Contents

Acknowledgments	vii
Introduction	ix
So, What is The Next Level.....	xi
An Invitation to a Firm’s Retreat	xiii
Cast of Characters.....	xvi
 PART ONE.....	 1
Where to Begin.....	3
Oh No! Not Another Bloody Meeting!	7
Cliff’s Opening Remarks.....	9
Nathan’s Story	11
Questions from Partners.....	21
Rules.....	23
Mark’s Opening Comments	25
Mark’s Findings	37
Categorizing the Issues	39
Let’s Get to Work.....	43
Markets Team Questions	45
Clients Team Questions	49
People Team Questions	53
Financial Team Questions.....	57
Underpinning Beliefs Team Questions	61
What We Agreed to Agree	65
Mark’s Closing Comments	69
Cliff’s Closing Comments	75

PART TWO.....	77
Two Weeks Later.....	79
Mark's Opening Comments	81
Findings & Proposals	83
Markets Team Proposals	85
Clients Team Proposals	91
People Team Proposals	97
Finance Team Proposals	103
Underpinning Beliefs Team Proposals.....	107
Making It Happen	113
Change Is Tough.....	115
What Do We Do with The Partners Who Don't Want to Join Us?	119
A Picture Is Worth a Thousand Words	121
 PART THREE.....	 123
Two Years Later	125
A Final Word	133
 PART FOUR.....	 135
Exhibits and Key Concepts	136
About the Authors.....	162
Other Works by the Authors	164
About CPA Trendlines	167

Introduction

When David Maister published his seminal book, *Managing The Professional Service Firm*, in 1993, professional service firm markets were relatively unsophisticated, with little competition for either clients or people.

In the intervening years to 2007 when Rob and his co-authors Tom DeLong and Jack Gabarro published their best-selling book, *When Professionals Have To Lead*, professional service firm markets had become much more competitive. The global players in the accounting and legal markets had drawn away from the pack, leaving the other firms feeling the cold winds of true competition for the first time.

But today's markets make 2007 look benign. Competition is fierce across all segments of the market and with increased regulatory scrutiny also impacting firms' actions, only the sheer scale of the global firms protects them from some of the buffeting faced by other firms. Now, we are seeing competition driving some firms out of business and an ever-increasing number of firms merging in the belief that with size comes safety. But, it does not. Even the global players, as Arthur Andersen would testify, are not immune from the ravages of competition.

Safety and the opportunity to grow and progress, only comes from clarity around which services should be sold into which industry sectors, to which clients, and, critically, how they should be delivered and by whom. With all of those decisions being relative to competitors. No firm competes in a vacuum and if firms are going to win in today's markets, decisions about how and when to compete necessitate a strategy based

on not just their own but also their competitors' actions – even those they may not be aware of yet.

Probably the only thing we can predict with any certainty is that competition will only get tougher. So, how do firms break out of the pack and put themselves in a position to enjoy sustained success?

Our answer is simple: make an explicit decision to become “the firm of choice” in their chosen markets. And, in doing so, they must move their operations to the next level. So, what do we mean by the next level?

So, What is The Next Level

Every firm operates at a specific level. What it does, and how it does it, generates its revenue and, ultimately, its profit. Of course, firms can increase profit by adding profitable service lines to their offering or by reducing their labor costs, to name but two possible actions, but that is NOT what we mean by the next level.

Taking your firm to the next level means analyzing every aspect of the firm's operations and improving the way they are carried out. Nothing is sacrosanct.

Ensuring all of the firm's internal operations and processes are aligned with what the firm needs to do to be successful in its markets becomes one of the key drivers. Also, the firm must have an absolute commitment to being the best. The next level brings with it a refusal to accept the status quo alongside a belief that the firm can always do better.

And, doing better is always relative. Being the firm of choice means always being better than your competitors. Making sure that you are the firm, that targets the right industries and clients, recruits the people who will make a discernible difference to the firm and its clients, and develops them faster and more effectively than other firms.

In our thinking, becoming the firm of choice and continually striving to move to the next level are absolutely intertwined. Being the firm that people and companies want to come to isn't a one-off. With competition getting ever tougher, firms must focus on sustaining that position – a challenge, which forces firms to continually reassess their position and to strive to be even better.

An Invitation to a Firm's Retreat

Dear Reader,

We would like to invite you to join the partners of Samson, Boyd & Johnson (SBJ), a mid-size accounting firm in the New England area, as they wrestle with how to take their firm to the next level – to become the firm of choice in their chosen markets. You may decide to be an observer watching the events and decisions of the partners as they unfold or you can become an active participant by adding your suggestions and proposals from your knowledge of your own firm.

Whichever you decide, you will find this book is written as more of a story than as a traditional business book. Our aim is to tell the story in a way that helps our readers understand the challenges of becoming the firm of choice and, critically, how to do it. As such, it contains a wealth of practical lessons and advice.

You will be absolutely familiar with the challenges our firm faces. They are the challenges all firms have tried, or are currently trying to address, but which few firms have come close to resolving completely.

Part One sets the scene. The opening chapter sees Cliff Johnson, the firm's current Managing Partner, musing over the major challenges the firm is facing and closes with his belief that, if the firm is to survive, it simply cannot continue to do what it is doing now.

The subsequent chapters in Part One include Nathan Taylor's description of what his firm, Kaufmann & Vales, did to move to the next level (*Nathan's Story*). This is followed by

Mark D'Angelo (an external consultant) walking the partners through how the retreat will work. He suggests the partners should have in their minds a model of what the very best firms do as they think about what SBJ should do in the future (*Mark's Opening Comments*).

In the following chapters, the partners are split into five teams (Markets, Clients, People, Financial and Underpinning Beliefs) to address the issues Cliff and Mark have identified. Each team is asked to come up with the key issues they believe need to be dealt with. The chapter, *What We Agreed to Agree*, summarizes the teams' conclusions.

Part One concludes with closing comments from both Cliff and Mark. In his comments, Mark reinforces, through the use of a new model of professional service firms in action, the inter-relationship of the activities in professional service firms and the need for the teams to work together in coming up with solutions to the issues they are investigating (*Mark's Closing Comments*).

Cliff's closing comments signal the end of the retreat, with the partners scheduled to meet again two weeks later.

After opening comments from Cliff and Mark, **Part Two** moves straight into each team's findings and proposals. The teams have grasped the importance of working closely on their proposed solutions – just as they have understood that they don't have to have all of the answers and should look to other professional firms for best practices. The Markets Team, for example, uses the practice segmentation in professional services matrix that Mark had been taught, and the People Team uses an article on best practice in learning in their proposals for upskilling the firm's people.

When all of the teams have discussed their proposals, Mark leads two sessions on *Making It Happen*. In the second of these, *Change Is Tough*, Mark walks the team through his accumulated knowledge of how to ensure any change initiative in a professional service firm is successful.

Cliff briefly takes center stage again when asked by Mark to respond to the question, *What Do We Do With The Partners Who Don't Want to Join Us?* Mark then reprises his model of professional service firms in action (*A Picture Is Worth A Thousand Words*) before handing over to Cliff for him to close the retreat.

By the time we get to **Part Three**, *Two Years Later*, Cliff has retired and Kate Wellington has replaced him as Managing Partner. And the wheel has gone full circle with Kate describing what SBJ did to move to the next level to another firm in her international association trying to do the same thing. Kate's talk details the results of SBJ's change initiative – how they became the firm of choice in their chosen markets, their financial results, what worked and what didn't, and what they could have done better.

Finally, **Part Four** provides all the exhibits and key concepts presented in the book.

We hope you find this book useful and a real addition to your critical thinking and strategic actions – and that it inspires you to help take your firm to the next level.

*August J. Aquila
Minnetonka, MN*

*Robert J. Lees
London, UK*

Part Four

This section contains all the exhibits and key concepts presented in this book.

What Successful Firms Do

They have a clear vision and strategies for getting there

- There is a shared understanding of what to do and shared commitment to its achievement
- They make tough choices, always focusing on continuous renewal
- The partners role model the behavior needed to deliver sustained success

Categorizing the Issues

Markets

- Markets are really tough
- Competition is coming from many new competitors
- Competitors are offering new services
- Competitors are cutting prices
- We are serving each market segment the same way we always have

Clients

- Clients are spreading work among different professional service firms
- Clients are becoming more sophisticated
- Client needs and expectations are changing
- Revenue from core service lines is decreasing
- Clients are more demanding
- Clients are more price sensitive
- Clients want more value for their fees
- We are not winning enough business

Markets Team Questions

Markets Team Questions

- Do we have a brand that is recognizable?
- Is there brand consistency?
- How loyal are our clients?
- Do we really know where our revenue comes from?
- Do we deliver services in the most efficient and profitable manner?
- Do we know how our services segment and how important each one is?
- Are we offering the right services?
- What services are our competitors offering?
- How are our services viewed compared with our competition?
- Do we know what to do to succeed in each segment?

Financial Team Questions

Financial Team Questions

- What is our range of net realized rate per hour by client, by type of work?
- What should be our acceptable gross margin on our clients?
- How do we increase utilization by level?
- How do we improve realization?
- Can we increase partner/staff leverage?
- How do we justify higher rates?
- What is an acceptable level of net income per partner?
- How do we manage and contain cost?
- What should we be doing to make investments for the future?
- What do people spend their non-billable time doing?
- Do we have the right processes to achieve our financial goals?

Key Team Questions

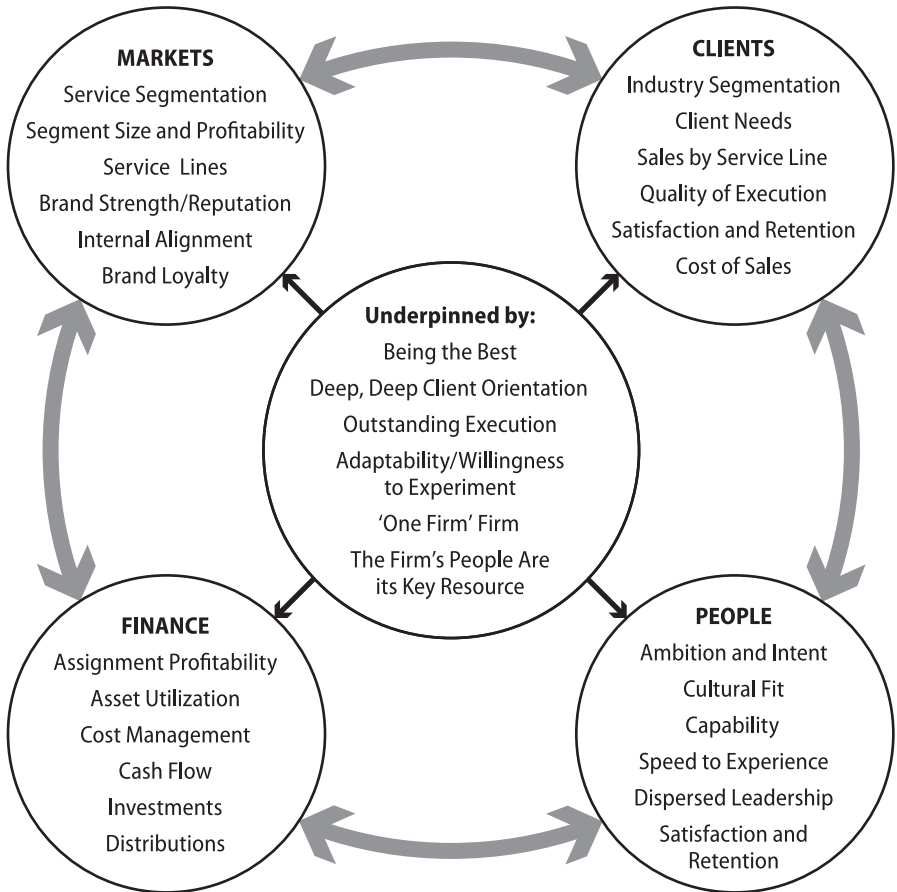
Markets Team Key Questions

- Do we know how the market for services is segmented and how profitable each segment is?
- What do we need to do to be successful in each of our segments?
- Do we know what services our competitors are offering and how they deliver them?

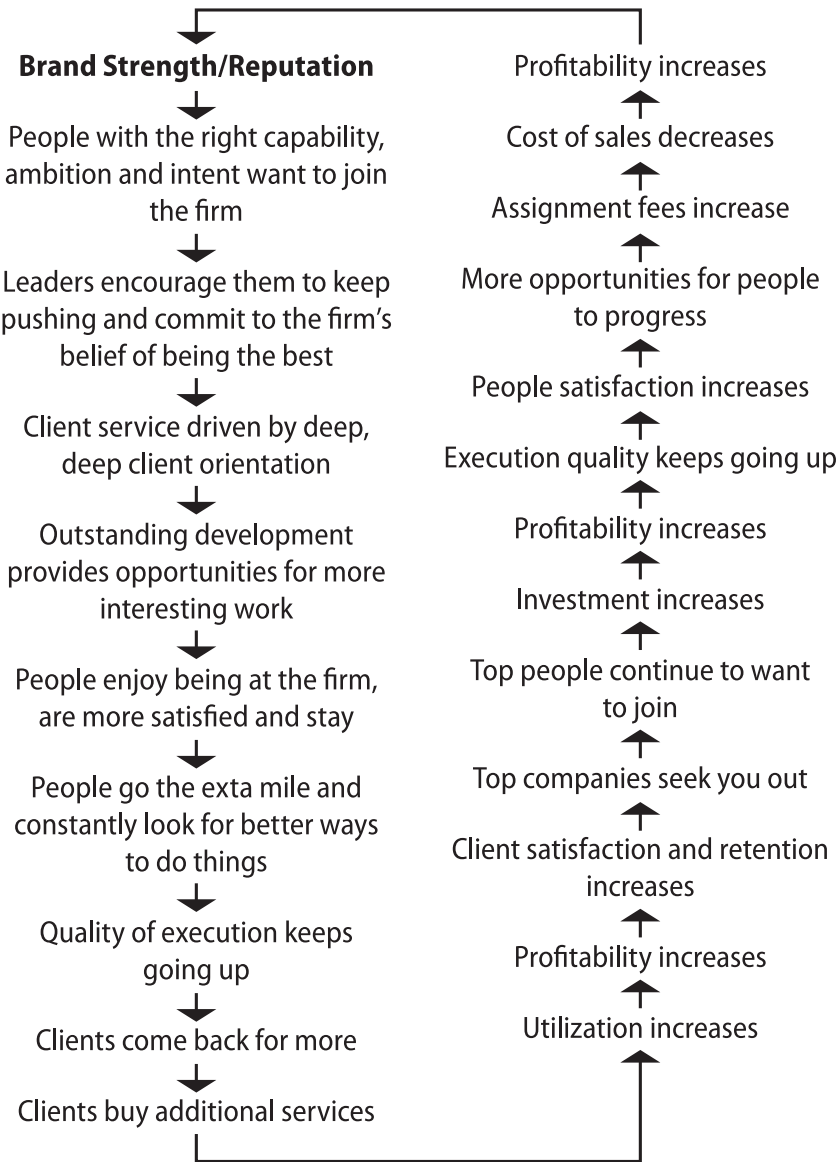
Clients Team Key Questions

- What do our clients buy from us and what do they buy from our competitors?
- Which clients make us money?
- How do clients perceive us?
- What do we know about them, their business, and their industries?
- Why have we lost clients?

PROFESSIONAL SERVICE FIRM SYSTEMS AND BELIEFS MODEL[®]



**PROFESSIONAL SERVICE FIRM SYSTEMS AND BELIEFS MODEL[®]
IN ACTION**



PRACTICE SEGMENTATION IN PROFESSIONAL SERVICES ¹

Standardized	Customized	Expertise-Driven	Rocket Science
Client Problem: Efficient solutions to common problems	Client Problem: A tailored but still relatively low cost solution to a common problem; guidance through the pre- and post-purchasing process	Client Problem: A major complex and ill-defined issue that the client has little or no experience of	Client Problem: A major “bet your company” issue that the client has no similar experience of
Key Skill: Efficient, low cost delivery of established methodologies, models and processes	Key Skill: Providing user-friendly advice which generates confidence in the selection process and thereafter	Key Skill: Real-time diagnosis and judgment	Key Skill: Providing innovative and novel solutions
Critical Success Factors: Established methodologies, models and processes; efficient and low cost delivery systems	Critical Success Factors: Established methodologies, models and processes; efficient, low cost delivery systems; inter-personal/relationship skills; managing the “sales” costs	Critical Success Factors: Experience of similar problems; in-depth technical and/or functional knowledge; exceptional relationship skills	Critical Success Factors: Highest level diagnostic skills; creativity; state of the art knowledge; pioneering concepts
Profit Drivers: High volume, high leverage	Profit Drivers: Above average fees; good leverage	Profit Drivers: High fees; low leverage	Profit Drivers: Premium fees; very low leverage; may also refer work to others
Selling Proposition: “Better, faster, cheaper”	Selling Proposition: “Use us, we’ll tailor the solution to you and your needs, and provide you with on-going support”	Selling Proposition: “Trust us, we’ve seen similar problems before and we’ll help you over your problems”	Selling Proposition: “Smartest brains around”

¹Adapted from the original matrix, ©Rob Lees and Jack Gabarro, which is included in *When Professionals Have To Lead*, Harvard Business School Press, 2007

About the Authors



August Aquila is an internationally known speaker, consultant and author and has held leading positions in the accounting profession for more than 30 years. He held several executive leadership positions with American Express Tax and Business Services, Inc.; was also a partner in a top-50 accounting firm in Chicago and regional marketing director for Coopers & Lybrand in Chicago.

In 2004, 2007, 2009 to 2014 he was selected as one of the “Top 100 Most Influential People in The Accounting Profession” by *Accounting Today*.

He is the author of hundreds of articles and several books on practice management, mergers & acquisitions and compensation plan designs. Recent books include *Engaging Partners in the Firm’s Future* (Bay Street Publishing), *What Successful Managing Partners Do* (Bay Street Publishing), *Performance is Everything* (AICPA 2012), *Compensation as a Strategic Asset* (AICPA 2007) and *Client at the Core* (John Wiley & Sons 2004).

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Rob is the co-author of the best-selling *When Professionals Have to Lead: A New Model for High Performance* published by Harvard Business School Press. He is also coauthor of the HBR article *Managing Talent: The Key Challenge for Today's Professional Service Firm*. He also coauthored, with August Aquila, *Engaging Partners in the Firm's Future* and *What Successful Managing Partners Do*. He has also published numerous articles on professional service firm strategy in both the US and UK.

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Selected Other Works by the Authors

August J. Aquila

Price It Right: How to Value Accounting Services

(Bay Street Group, 2017)

August J. Aquila and Robert J. Lees

How to Engage Partners in the Firm's Future

(Bay Street Group, 2013)

August J. Aquila and Bruce W. Marcus

Client at the Core

(John Wiley & Sons, 2004)

August J. Aquila and Coral Rice

Compensation as a Strategic Asset

(AICPA, 2007)

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Performance Is Everything

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Robert J. Lees, August J. Aquila and Derek Klyhn
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Robert J. Lees, August J. Aquila and Derek Klyhn
Speed to Experience: Winning the Game
(Of Counsel, October 2012, and Managing Partner, May 2013)

Robert J. Lees, August J. Aquila and Derek Klyhn
One Size Does Not Fit All: Segmenting Services Drives Professional Services Marketing and Sales
(Of Counsel and Managing Partner, both March 2014)

Robert J. Lees and August J. Aquila
Superior Dimensions
(Of Counsel, May 2015)

Robert J. Lees and M.L. Mister
What HR Should Really Do
(Of Counsel, December 2016)

Robert J. Lees and M.L. Mister
Making Centralization and Agility a Reality
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The 30:30 Training Method

The 90-Day Marketing Plan for CPA Firms

The Accountant's Social Media Handbook

The Client Service Idea Book

The Idea Book for Accounting Firm Hiring Managers

The Idea Book for Career Planning in Accounting

The Radical CPA

The Rosenberg MAP Survey: Annual National Study of CPA Firm Statistics

What Makes a Great Partnership

What Really Makes CPA Firms Profitable?

Winning Your First Client