You Don't Want More Clients

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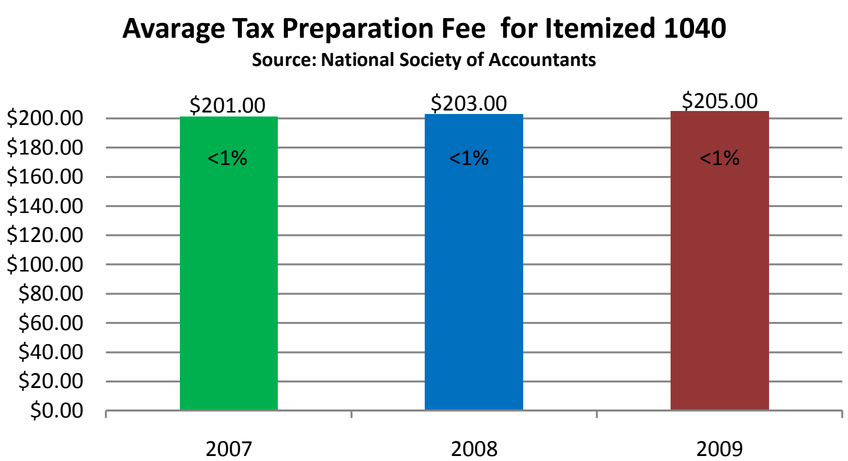
This white paper makes some assumptions that need to be communicated up front – if you do not agree with these assumptions then save yourself the 10 minutes to read this and get back to work. If you do agree with these assumptions this could be the best 10 minutes you spend this off-season.

Assumptions:

1) You own and operate a tax preparation practice.
2) You would like to "grow" your practice.
3) You would like to grow your personal income without making a huge investment in the practice.

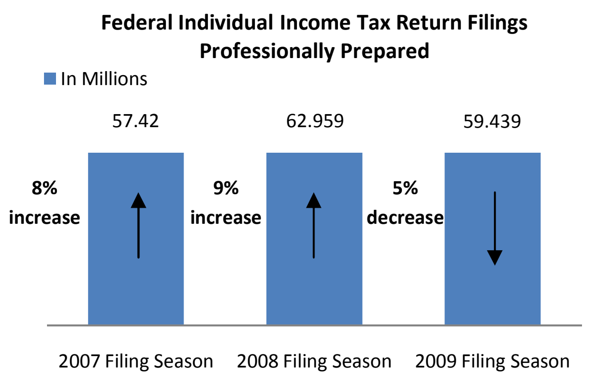
One of my early mentors revealed a simple truth about business cycles: A practice is either growing or shrinking, it never stays the same. That truth translates to all issues big and small in a professional practice, but we tend to only measure the big ones. Are revenues growing? Is the client base growing? Is the staff growing?

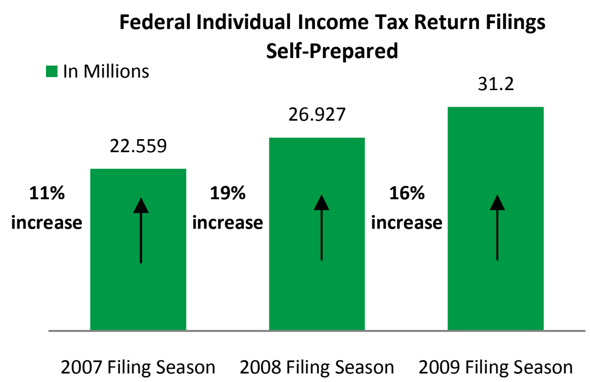
The drive for most businesses is to become bigger. This may have been born out of habits established early in our practices when we were too small for comfort and were convinced that "if we could just get to X number of clients then everything will be ok." It could be a result of our collective psyche that "if some is good, more is better." It might just be a natural result of "that's what you're in business for" – to get more clients.



More dangerous to the health of a practice is the attitude adopted by owners of mature practices. The owners worked and struggled for many years to establish a successful practice. At that point they decided that "things are just fine, I'm satisfied." Recall that simple truth: things never stay the same. A practice is either growing or shrinking, and if no effort is being made to grow it then the natural forces of atrophy will shrink it. Never has this been truer than the last two years. Many "comfortable" practice owners have been surprised to find that they are working harder to make less.

Economic pressures are keeping fees from increasing and some are even decreasing. Do-it-yourself options are growing in market share, your long time clients tax returns are becoming less complicated and less expensive as they retire, etc.





The first reaction to this realization is to revert to previously successful new client marketing campaigns. Our struggle there is the same as always. The best time to market our services is when consumers have an immediate need; tax season. The worst time to market our services is when we are scrambling for time; tax season. Your calendar from Feb 1 to April 15 doesn't have room for an extra 50 appointments, which is why we call it "busy season."

But, if you could, would you really want to increase your already full roster? The amount of energy and financial cost to recruit and on-board a new client is high. Studies over the years indicate that it is three to four times more expensive to recruit a new client rather than retain and existing client. The ability of any professional practice to keep track of the needs and preferences of a clientele is finite. There is a natural limit to the number of people you can serve and only you can discover that limit. This discovery will be expensive because you have to break your systems to find their breaking point.

The truth is that 30 years ago the tax industry was such that we commanded high fees from a relatively captive audience. We were able to earn enough money during the tax season to support ourselves during the off season. As technology has advanced, tax preparation and accounting services have been commoditized. Operating costs continue to rise. The profitability we used to enjoy has vanished. And since the season hasn't gotten any longer (the tax deadline last changed from 3/15 to 4/15 back in 1954) there is simply not enough time to make up the difference.

So, what is the answer?

How about raising your fees? Your fees are probably too low, but now is not the time for a price increase. You could build a practice of "extension filers" so you can handle the increased load after April 15th. However, if your "late filers" are like mine, they require much more effort than they pay for. Also, in general, their "late" nature also makes them less reliable and less loyal. Frankly, I'm not looking to build a practice on undesirable clients.

What if you use your accounting knowledge to build a small business accounting practice for revenues in the off-season? The proliferation of easy to use accounting software (aka QuickBooks™) has made this all but impossible. Combine that with the economic struggles most small businesses are experiencing and you suffer the one-two punch that knocks out this option.

So what is the answer to growing revenue without increasing current client load, without raising fees, and without expanding marginally profitable off season solutions?

The answer is so simple that you already know it. The answer is not getting MORE clients; it is having the RIGHT clients. From practice to practice the definition of the right client will change slightly, but there are three core qualities identical to all.

The right client:

1) Respects me, my staff, himself, and the process enough to operate with integrity and accountability.
2) She has a genuine desire to improve her financial position.
3) Pays my bill joyfully.

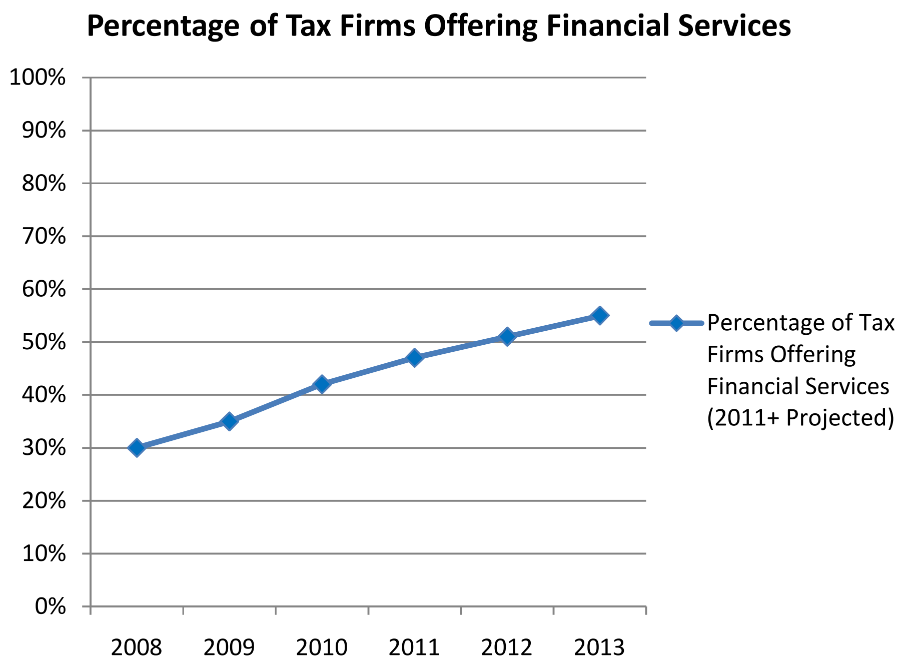
This client resolves many of the struggles suffered by tax professionals before there is a problem. The respect that materializes in integrity and accountability means they show up on time and prepared for their appointments. They promptly return phone calls/emails and respond to requests for information. Their genuine desire to improve their financial situation means that they are coachable and will follow recommendations. And paying my bill is the only way they can be even considered a client, *joyfully* paying my bill shows me their appreciation.

From that definition of the right client it should be easy to identify the wrong client. They are late and unprepared for their appointments and argue with me about recommendations. These types of clients continue to commit behavior detrimental to their financial health and complain about my bill before making me fight for payment.

Just because the right clients are compliant, prompt and current with payment, doesn't increase my revenues. So how does having the right clients satisfy my need to make more money? Simply, having the right clients allows you to expand your services and your earning season.

There is no question that a "tax only" or "tax and accounting only" practice faces significant challenges in today's market. Unless the client roster is heavily business weighted or in a very narrow niche, tax and accounting services are not enough to sustain it. The continued enhancement and promotion of accounting technology threatens accounting income from business clients.

There is also no question that practices adding "financial Services" are the ones growing and thriving. A 2008 Moss Adams study revealed that 30% of tax prep firms were offering financial services and another 25% planned to add financial services in the next 5 years. That's 55% in 2013 and in less than three months it is 2011. Follow-up studies said that firms that had added financial services in 2007 were experiencing growth in those service revenues of 30% annually. A leading industry spokesman, Chris Fredrickson, CPA was quoted in July of 2010 as saying "If you don't offer wealth management then you are guilty of malpractice."



On average, an hour spent performing financial services results in four times the revenue that tax services generate. These services/products provide residual compensation – meaning that you are paid monthly/annually for as long as the client remains a client. This continued income requires little effort to maintain.

Consider the difference between a repeat tax client (where you have to do the work every year to generate the income) and repeat business without the work. Imagine opening the doors on January 2nd with residual income waiting for you. Last – consider your future. A tax practice sells for 1X gross revenue. A financial services practice sells for 4X gross revenue.

The trend toward including financial services in tax practices in California began in earnest at the passing of the Calderon Bill in 1999. Although implementation methods and types of expanded service offerings vary from firm to firm, there are core services applicable to a vast majority of clients. Business heavy firms have added strategic business planning, succession planning, and similar services very successfully. Industry niche practices have added services needed by those industries seamlessly to their service menus. However, most clients (regular people) need help in three general areas that are easily integrated into the general practitioners tax practice.

Those products/services are:

1) Insurance products
2) Investment management services
3) Legal document preparation services

The business models employed while implementing financial services vary in complexity and financial commitment. The fastest method is to "hire the expert"; but this is also the most expensive. It requires you to locate, recruit, and hire an expert and then house them in your office. This requires complex licensing in order to share in the financial rewards created.

On the other hand, *you* could *be* the expert. To do this you will need to navigate the licensing process and also learn the specific business well enough to conduct it day to day with your clients. It is a less expensive option than hiring the expert, but will require significantly more time to get up and running and take longer to develop meaningful revenue.

The leading insurance companies with programs to roll into tax practices do a good job of getting licensing in place but fall down when it comes to actually solving any client needs. The only time anyone is helped is when a policy is issued and a commission is paid. Because these programs are designed by insurance companies they have difficulty gaining traction as there is no connectivity for the client or tax professional to the practice.

The leading securities firms licensing accountants experience the same "penetration" problem into the tax clientele. The hire-the-expert model achieves greater results but the client's allegiance is now somewhat divided as there is another expert vying for relationship and mind-share. There is the added threat of the expert leaving your practice and taking the financial services business with them.

Bottom line, any program developed by product sales companies will take some adjusting to as the implementation is not designed to flow into your practice, but to "bolt-on" to it.

Many tax practitioners are helping their clients with legal document prep through online providers like Legal Zoom™ and My Corporation™. I've been told these practitioners sit in their office at the computer with the client while they complete the online worksheets together. This provides clients with simple legal documents that do not require the high cost of an attorney for basic tasks like entity formations, wills/trusts/etc. Note – obviously there are reasons for engaging an attorney.

To see how applicable this service is to your practice, a review of your clients will reveal the numbers that already have a revocable living trust, etc. versus the number that need one. The biggest obstacles for clients in solving this problem are cost and comfort. When attorneys sit in the "legal document preparation" chair they often charge over $2500 for simple trusts.

That price tag stops many clients from proceeding. The thought of going to someone they don't know to discuss something this uncomfortable (their mortality) stops the rest. Only the brave, well heeled clients follow the recommendation to "talk with my attorney." More times than not, unless the person they trust (their tax professional) is willing to "help" this need goes unresolved.

As always, there are issues when using *any* online solution. The practitioner does need to be concerned with the quality of the final document and it's compliance with current local law. For this reason the online solutions can leave a confidence gap.

The tax professionals addressing legal document preparation most successfully are using a live, attorney backed service bureau. In this model the client is meeting with their tax preparer in the familiarity of the tax office and having a potentially difficult conversation with someone they already know and trust. The legal professionals actually prepare the documents. The client typically saves a bundle (even after paying the tax professional for their time) and get's a personalized professionally prepared document.

The integration of financial services into your existing practice will solve several problems all practices face. Tax season is short, and it's just not fair to your existing clients, staff and family to cram more appointments into an already full schedule. Your clients are already asking you to advise them on these other subjects – it is unfair to be expected to help for free. It is equally unfair to withhold the help because you lack a good mechanism to offer your help.

You do not want more clients! You want the right clients! The good clients you have will not be yours for long if you don't start really helping them solve the issues they are facing. Within two years 55% of the industry is planning to be there – leaving you behind. By adding financial services to your existing practice you will be able to really serve your clients, generate the revenues that will allow you the standard of living you deserve, and have the time – year round – to enjoy the lifestyle that you always wanted.

So investigate your options, examine which alternatives fit you best, and run, don't walk into the future!