



## CALM AT THE END OF THE STORM



The mantra in 2009 was "flat is up," which meant that CPA firms would gladly settle for 2009 revenues that simply held firm at the 2008 level, given the full brunt of the recession. According to a survey we conducted of 54 CPA firms across the country, firms got

their wish: Firms showed a 0.6% increase in annual net fees in 2009 vs. 2008 – about as flat as it gets. Income per partner was down 2.5% in 2009 vs. 2008, probably due to the lag between the onset of the revenue slowdown and staff layoffs.

### 2010 vs. 2009

Fees are projected to increase in 2010 by 3.0% across all size ranges. Income per partner is projected to increase 5.8%, with the \$10+M firms expecting a 7.5% increase. The right-sizing done by firms, on both the staff and cost control fronts, should pay off in 2010.

### Lay-offs in 2009

Our 54 firms were perfectly split on this: 50% laid off staff in 2009 and 50% did not. 71% of \$10M+ firms laid off staff, well above the 39-50% reported by smaller firms.

### Availability of quality staff available in the market

Overall, 65% saw an increase in the quality of available staff and 35% did not. Generally, larger firms were less impressed with

the quality of available staff than were smaller firms. 60% of the firms actually hired some of these staff.

### Hiring plans for 2010

Only 17% of \$2-5M firms plan to hire in 2010, considerably below the 43-50% reported by firms over \$5M in annual fees.

**Fees are projected to increase in 2010 by 3% across all size ranges.**

### Spending marketing dollars in the recession years

62% of firms plan to increase their marketing expenditures in 2010.

### Recession's impact on firms' strategy for merging in smaller firms

The recession appears to have had minimal impact on firms' merger strategies.

### Tactics and strategies to weather the storm

- Spending more time with existing clients: finding ways to better serve clients, helping clients weather the storm.
- More marketing and practice development: networking; formalizing the goal setting process for partners and managers in selling, more aggressively targeting niches, being more proactive in asking clients for additional work; focus more on smaller clients of Big 4 firms.
- Improving processes, efficiency and productivity.

### ROSENBERG MAKES THE TOP 100 – 6th YEAR IN A ROW!

**ACCOUNTING TODAY**

In 2009, *Accounting Today* magazine acknowledged Marc Rosenberg as one of the 100 most influential people in the CPA profession. It's the 6th year in a row that he has received this honor.

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# THE 5 BIGGEST MISTAKES CPA FIRMS MAKE IN READING AND COMPILING MAP STATISTICS

*The 12th annual Rosenberg MAP Survey is now underway. Last year, we had 353 firms participate, and this year we are expecting 500. Visit [www.rosenbergsurvey.com](http://www.rosenbergsurvey.com) for an input form.*

## 1. Overreliance on partner income as a % of fees as a measure of profitability.

Many partners have a rule of thumb that 33% is the minimum acceptable partner income percentage, and that 40-50% is the true measure of excellence. But this metric is impacted as much by the firm's staff-partner ratio as by innate profitability. If a firm has a high staff-to-partner ratio, partner income percentages

in the 20s and low 30s will still result in lofty partner earnings.

Firms in the most recent Rosenberg MAP Survey with staff-partner ratios in excess of 8:1 had a robust income per partner (IPP) of \$491,000, yet their partner income % was "only" 23%. But firms with a staff-partner ratio of under 4:1 produced a much less impressive IPP of \$260,000, yet they enjoyed a seemingly high 39% partner income percentage.

Partners are cautioned to avoid making quick judgments about profitability based solely on partner income percentage.

firm. The resulting averages are utterly meaningless.

Compensation data is only relevant if it is taken from a market that is comparable to your own, something that most MAP surveys cannot possibly do.

## 4. Utilization percentage.

This metric is the total billable hours of a firm divided by the total work hours of the firm, with all personnel included. Firms track utilization percentage for departments, partners, managers, seniors, etc. Utilization percentage is subject to significant distortion by (a) the total annual hours worked, (b) the presence of part-time personnel and (c) the extent that billable time is recorded properly. Firms should focus on comparing the absolute number of billable hours incurred to whatever the expectation is (target, budget, etc.).

## 5. Net firm billing rate.

A client of mine with long-standing profitability problems called me after reading our latest MAP survey. He commented that, as usual, his firm lagged in almost every metric. But with great pride, he told me his firm's net firm billing rate was 20% higher than the industry norm. I had to puncture his balloon by telling him: "Yes, you did well in this category. But that's because you have 10 partners and 9 staff!"

Net firm billing rates in MAP Surveys are only relevant if your firm has a reasonably normal staff-partner ratio.

**The Rosenberg Associates** is a management consulting firm serving the Accounting industry. We are committed to helping our clients become more profitable, grow and plan their future.

Consulting services include:

- Partner compensation & retirement
- Facilitating retreats
- Succession planning
- Bringing in new partners
- CPA firm mergers and sales
- Strategic planning & visioning
- Expert witness testimony
- Practice management reviews
- Staff and upward evaluation surveys
- Partner relations/conflict resolution

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## 2. Being content with "average."

Remember, when a MAP survey cites an average for a group of firms, it's just that – an average. If, for example, the national average for annual staff billable hours is around 1,530 and your firm is at 1,530, you have little cause for celebration because your performance is perfectly average. 175 firms outperformed your firm! Ideally, you would like to achieve results well above the average in as many categories as possible.

## 3. Average salary data.

I've seen many national MAP surveys tabulate the average salary for positions such as manager, senior, A&A person with 3 years experience, etc. The problem is that personnel from firms in New York City and Podunk, Iowa are mixed together. Personnel from a \$30M firm are combined with those from a \$3M



## ON-LINE - UPWARD EVALUATION SURVEY

NEW THIS YEAR AT THE ROSENBERG ASSOCIATES

- CUSTOM DESIGNED SPECIFICALLY FOR CPA FIRMS
- 100% ON LINE
- STAFF EVALUATE PARTNERS AND MANAGERS
- RESULTS ARE COMPARED TO ACCOUNTING INDUSTRY NORMS
- 100% PARTICIPATION BY YOUR STAFF
- ALL DATA IS 100% ANONYMOUS
- VERY REASONABLY PRICED



(Call Marc Rosenberg for details.)

## Recent Engagements

Converted a \$9M firm from a formula method for partner compensation to the comp committee approach. Marc presided over the committee's first meeting to walk them through the process, ending with the allocation of income.

Assisted a \$15M firm in creating their first ever partner **retirement/buyout plan**.

Advised a \$23M firm in considering **upward merger** proposals by two regional firms.

**Facilitated the retreat** of a \$14M, 12 partner firm. The focus of the entire meeting was strategic planning and partner accountability.

Provided **Expert Witness testimony** on the validity of non-compete and non-solicitation agreements.

Conducted an **on-line, Upward Evaluation Survey** by the staff, of the partners and managers of a \$5M firm.

Performed a **Practice Management Review** of a 7 partner, \$6M firm.

Provided **Expert Witness testimony** in a case where two partners in a firm split up and were in disagreement over how the value of the firm should be allocated between the two.

## Some Personal Notes...

**Son Doug** continues his busy schedule as a professional musician. He splits his time between giving saxophone lessons at area high schools and performing with his band, Eastern Blok, a folk/jazz group. The band will be performing at the prestigious Chicago Cultural Center in April. The Eastern Blok completed a triumphant 8 day performing tour in Poland, after which Doug treated himself to several days of vacation in Spain.

**Daughter Lauren**, last fall, started a 2 year Master of Arts Administration program at The School of The Art Institute in Chicago. On the first day of school, she was informed that there was a mandatory, two week "field trip" to South Africa, this past January. While in school, Lauren continues with her exciting job as Program Coordinator for the Chicago Tourism Bureau.

**Dr. Ellen** completed her 7 year program at the Chicago Institute for Psychoanalysis to become a Psychoanalyst. I now call her PhD<sup>2</sup>. We celebrated her graduation last fall with a gala party.

**The Rosenberg Family team** marched in the Annual Ron Santo Walk To Find A Diabetes Cure. We raised over \$11,000, one of the highest fund-raising totals among hundreds of non-corporate sponsors.

In recent months, **Marc and wife Ellen** vacationed in Southeast Michigan and New York City. Coming up: In March, a wedding in Guadalajara and a few days in Puerto Vallarta. In June we travel to Denver. In October, we trek to Turkey and Israel to celebrate our 40th wedding anniversary.