EBOOK

Is your practice running you?

Optimising your accounting practice through measured performance indicators

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Introduction

87%

of Australian accountants believe clients expect better service without an increase in their rates.

The Practice of Now 2020 report

The report's survey data suggests that clients are demanding much more than just traditional number crunching. Their expectations of accountants and bookkeepers have widened to include services such as advising on relevant finance and accounting technologies. Additionally, workforces are becoming ever more multi-generational, and the profession is being infiltrated by new and different attitudes,expectations and skills.

The ongoing digital revolution is contributing to the overall shift as well, with technologies like cloud computing becoming mainstream and artificial intelligence beginning to ease some of the grunt work. And we see new (digital) compliance requirements and initiatives that ultimately help evolve the accountancy profession coming from the governments and other authorities.

Change is perhaps the only constant in business or those prepared to invest the effort, a time of evolution like today presents fertile ground for growth. It also indicates a need to refine processes and make your practice more efficient.

In short, it's definitely time to optimise your practice for the coming decade.

Doing so involves examining the ways that you measure success—the key performance indicators (KPIs or other metrics from which you discover business performance.) Depending on your processes, you might have multiple KPIs spread across various staff and functions within the business. Alternatively, you might only have one KPI, which is revenue.

In this report we look at some traditional metrics used to measure performance within practices, and explain why they may not present the full picture required to remain competitive in today's world. Based on the cultural shift mentioned above, we then suggest some new metrics that could not only provide a more accurate picture, but also encourage growth and prepare your practice for a successful future.

Classic practice metrics

Revenue is obviously the keystone metric for every business, and in a typical accounting practice this boils down to ensuring projects and/or clients are processed within a given time frame, such as a month.

In other words, monthly recurring revenue (MRR) is typically measured in terms of fees.

You may have additional metrics to judge the capacity of the practice and its staff to ensure clients are not disappointed, and staff not overworked. These might be formed on a casual basis, which is to say, based on the experience of managers. Alternatively, they might be formalised into something like a spreadsheet.

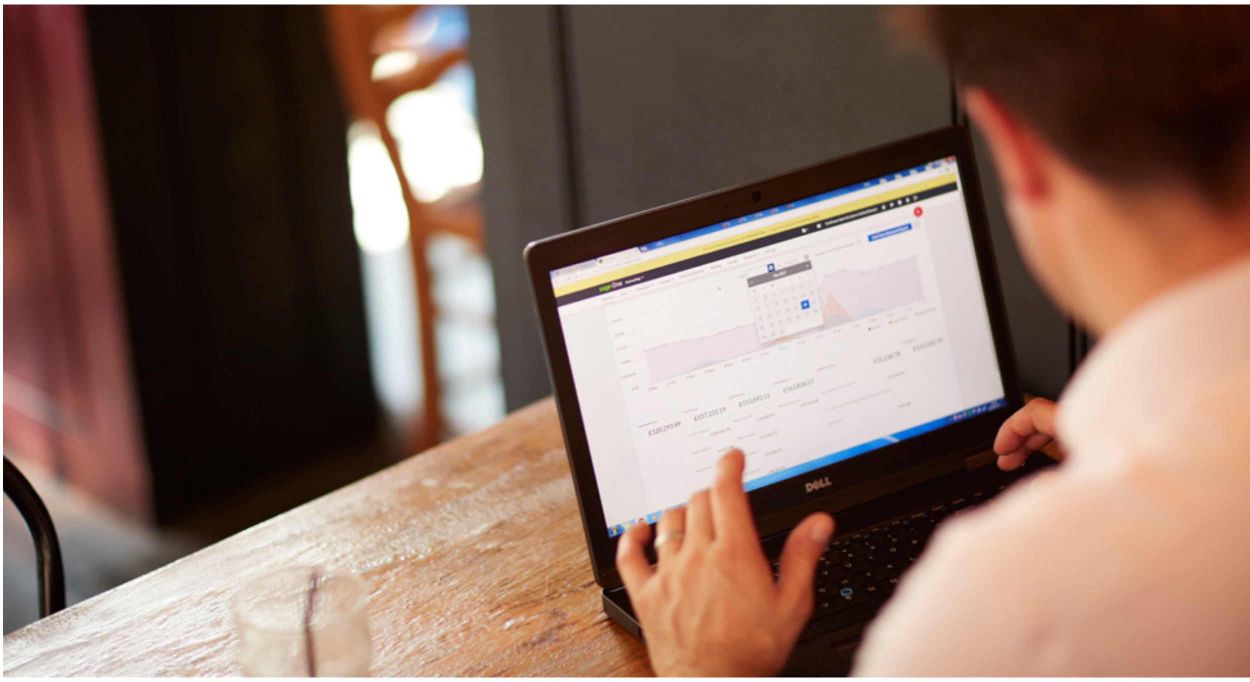
But as insightful as these might seem, they're ultimately only a high-level view of a practice's performance. The data is unreliable when it comes to asking questions about growth, or attempting to make efficiency gains. It forces important business decisions to be based largely on experience, or even gut feeling. This can be successful—but the way it relies upon non-data-driven thinking means it often isn t. Even worse, when any attempted improvement fails, there's again no metrics to examine what went wrong. This can lead to repeated mistakes in future.

Most accountants know that modern businesses generate a wealth of data that can be harnessed to drive decision making. Yet often the doctor is unable to heal himself. While accountants are moving to an advisory culture, where they assist clients in achieving their growth and efficiency goals, it can be difficult to heed their own advice.

This must change. We'll discuss the steps and ideal measures that can be used for optimisation later, but here are some traditional KPIs used within practices, along with a discussion of the problems they present.

Number of clients

The client list is considered a faithful representative metric within many firms. If a practice is sold then it's what is evaluated to determine worth, and many practices use it as a touchstone for overall health, beneath only fees.



While growing a client list is considered healthy for any practice, using the number of clients as a KPI is problematic for several of reasons.

For example, it doesn't reference the worth of each client. The fee range of clients within a practice can be extraordinary. A practice with 500 low-paying clients and 100 high-paying clients can be in a significantly worse position than one with 150 high-paying clients, and 100 low-paying clients.

Nor does the number of clients reference the profitability of each client—which is to say, the amount of resources they demand, such as staff hours, set against the fees gathered from them.

Then there' s simply the differing needs of each client reflected in the ongoing revenue stream they provide. Some may require monthly tax returns, presenting a steady fee stream, while others might only provide a single yearly touchpoint, from which very little revenue is generated. And how long do clients stay on the list without any contact

None of this is to mention the age-old argument about whether unprofitable clients should be kept on the books, which remains difficult to answer within most practices. Who hasn't experienced an unsuccessful client one year suddenly demanding significantly more services the following year? Client churn is a metric used by many practices but does it have any true meaning when considered in isolation, bearing in mind the points discussed above?

In summary, examining client quantity as a metric is undoubtedly useful but only for very general views of practice efficiency. It's necessary to gain a deeper and more finely-grained understanding.

Fees

As mentioned earlier, the fee range for clients is another typical metric used to measure practice performance, but is again somewhat problematic when viewed in isolation.

A practice might have an attractive proportion of higher fee-paying clients, but if those clients eat up the resources of the business, then those high fees may not in fact prove profitable.

Inversely, if the practice has many lower-paying clients whose needs are simple—perhaps they merely need the inputting of profit and expenses into a spreadsheet to output a tax figure—then they might present a more profitable ongoing revenue stream.

Where does your practice sit? Are you able to measure fees against resources to discover if a high revenue client demands the respect it claims?

This is the ultimate issue with using fees as a performance indicator: they can't be considered without the corroborating data mentioned above. The higher resolution insights provided by this data is where the real value lies when it comes to building growth and measuring efficiency. As such, this can render examination of fees less useful than it's sometimes considered to be.

Number and performance of employees

The vast majority of practices are small, ranging from just one practitioner to a handful of staff. While larger practices might routinely measure the performance of employees, in any smaller business this kind of metric is likely to be more informal Put simply, practice managers realise that when their employees are performing at their best, they will moderate not only employee workloads but also client expectations. But this kind of measurement is purely knee-jerk—an automatic and ultimately unthinking response that doesn't provide any real insight.

Employees work seven hours a day on average, so what's taking up most of that time? Often simply asking this question of employees can lead to misleading answers, because people like to report and measure their effectiveness by their own measures, rather than the quantity of actual work completed set against revenue—especially if it's grunt work that's unrewarding.

Measuring employee performance in the aforementioned ways cannot reliably inform on how well staff could perform with new skills, or how well the practice could perform if those skills are used to attract different types of clients.

A more sophisticated way of measuring employee performance is needed, although care must be taken to ensure it's not invasive, and that it reflects the employee's own desire~~s~~ to make best use of themselves.

There are certainly other traditional metrics we can mention here, but the above are high on the list of most accountancy practices. However, in addition to the failings listed, all the measures have another, larger issue in common, which is that they're reactive. They present historic data points generated by the business and tend to force managers to respond to issues, rather than preparing for the future.

In other words, the practice may be running you, rather than you running the practice. With the use of more forward-looking metrics, you can regain the control you need, and be proactive rather than reactive. You can put yourself in a position to make informed decisions, rather than being forced to compromise. Practices that have made the leap to a different, better way of working report that it doesn't take a huge amount of effort.

Consider the rewards. Your role can be transformed. You can be ready with plans for the future and be able to deal with any contingency. Business problems transform into business challenges, and solving them becomes the way you grow your practice.

The new performance indicators

What should the new metrics be for a forward-thinking accountancy practice with its eyes on growth and creating efficiencies? Below are some suggestions that build on traditional metrics, or raise entirely new considerations.

1 Returning to revenue

There's no escaping recurring revenue as a KPI, of course, but the degree of insight must be significantly deeper than you might be used to. Measuring across a month provides a consistent figure, with the potential to be more responsive than when measuring revenue across longer periods.

Traditionally practices might measure MRR as simply number of clients multiplied by fees, perhaps using a median average of fees if they're generally similar, or bracketing fee ranges into averages. However, using existing data you hold about clients and services can create far more useful metrics. Aim to measure individual MRR by the following areas:

Service

What services bring in the most revenue? Avoid assuming an answer here based on instinct, because you might be surprised. Instead, ensure measures are put in place to accurately measure services. Yes, your practice might undertake a lot of tax and compliance work, but it might be that the outlier services provided for just a handful of clients actually produce more revenue.

Measuring MRR in terms of service means you learn the strengths of your practice, and either look for realistic areas into which you can expand, or look to make up for inefficiencies in your overall service offering.

Client type

Related to measuring service MRR is gauging the types of client your practice services. Client types as a metric is a little more abstract compared to services because a client may require two or more types of service from you. However, clients can still be broadly categorised according to the nature of their business, and therefore how frequently they require the aforementioned services.

While a regular business might look to new customer acquisition as a method for growth, it's perfectly valid for practices to look to expanding their service offerings to upsell to existing clients. Therefore, the measure of MRR against client type can be invaluable. How can lower-revenue clients be improved? How can higher- revenue clients be optimised even further?

Employee efficiency

For larger practices with three or more staff, measuring MRR against employee input can be a useful way to test expansion plans and spot inefficiencies, especially if skills and experience are considered alongside.

For example, a notorious problem within many practices with a handful of staff members is partners continuing to undertake grunt work such as bank reconciliation—a task better handled by automation or, at the very least, lower-level employees.

② Digging deep in the client list

A practice's client list can be a prolific source of metrics. Of course, a prerequisite for this is ensuring the client list is usefully collated and organised. You might do this via some kind of database or spreadsheet. Perhaps a "list" as such doesn't even exist outside of your head, or entries in the accounts receivable ledger from invoices issued for work you've done.

However, being more organised with your client list using a dedicated practice management solution can bring transformational benefits to your practice, allowing you to leverage the following metrics:

Gain/loss per client

Using clients as a core metric creates a lens through which other measures can be considered. For example, the resources a client consumes in terms of employee time (or even assets like stationery) can be more accurately measured alongside other metrics looking at staff efficiencies and skills. But measuring the gain or loss per client is a central statistic when it comes to creating efficiencies.

Client churn

Although a classic performance measure within practices, client churn needs to be more than simply a net figure within a given period. With the data provided by measuring gain and loss per active client~~s~~, the churn list can be further filtered into clients for whom marketing resources could be spent in order to win back, while customers who presented little or even no profit (or even who represent a net revenue loss) can be left out of any win-back plans.

③ Measuring skills

While we discuss measuring skills below, and include specific examples of metrics you can use to do this, the ultimate goal is to create indicators of performance that relate to the practice. As such the metrics suggested here focus specifically on the performance of core tasks within the practice, as should any others we don't mention.

Quali ications

What proportion of staff have suitable qualifications in accounting? If this lies at the core of what practice does, as quantified by other metrics discussed here (such as employee performance), then how can the quantity of qualified staff be increased? This needn't involve recruitment. Existing employees can be encouraged to seek certification, which presents a win-win situation for employee and employer. However, there's an obvious and clear correlation in a practice between the number of skilled professionals and any potential for growth.

Processes

Outside of skilled work there's a basic need for administration, of course, and any metrics you use should identify the ability to plan, as well as create suitable workflows. Ultimately, a business that's well run and able to cope with new administrative challenges is one that's healthy and in the best position for growth and optimisations.

Technology

The ability to automate tasks within a modern practice is key to any efficiency or growth plans, and the skills required to do so should be quantified and monitored (perhaps by measuring training take-up, for example.)

The growth of artificial intelligence and machine learning is having a direct impact on accountancy, and a practice that can adopt technologies easily and quickly is in the best position possible.

4 Customer demands

As perhaps one of the world's oldest true service industries, accountancy has always been about placing the client at the center of everything. Therefore, measuring customer responses can be key to any plan to improve the business. Here are some metrics you might like to focus on.

Satisfaction levels

Are your clients happy with what you provide? This can be hard to discern because people are typically unwilling to articulate grievances when directly asked. However, this is such a valuable metric that ways have been found around blockages, such as asking people a single question about how likely they are to recommend your business to others.

This forms the basis of the widely-used Net Promoter Score (NPS) system, which measures the extent to which your clients would recommend your business to others.

The value of the NPS system lies less in its results and more in the follow-up with those who provide a low score, and also in any attempt to subsequently improve the score. In short, it's not enough to make up for deficiencies with a client. It's necessary to create a customer actively prepared to promote your business.

Expectations, demands and services provided

NPS is a reactive measure. It's also necessary to anticipate the needs of clients so that they aren't disappointed if your practice is unable to meet their demands. For example, taking on a client within an unusual industry might involve undertaking a modicum of research into that business, and particularly into any accounting or finance needs that arise. Often that can be done via your certification body, or even via online forums where professionals congregate. Performance metrics applied to employees and attached to their client's expectations, demands and required services formalises the above processes and ensures they occur.

The selection of metrics and focus areas presented here have one thing in common, which is the way they seek to penetrate and provide true insight.

It's not necessary to use all of these metrics, and indeed an overabundance of performance indicators can create a stifling bureaucracy. But knowing which KPIs to measure to achieve your goals is essential for both growth and ironing out inefficiencies.

Making effective use of measures

Informing best practices for growth and efficiency is not just about identifying useful performance indicators. It's necessary to create a strategy to ensure:

- Measurements are regular and operate with the range they require
- The practice makes effective use of what's discovered.

Practices should aim to create a three-pillar Efficiency Index that shows at a glance the health of the underlying business, and therefore its potential for growth and efficiency savings. The three pillars are as follows:

1

Financial performance and efficiency

The aim is to see instantly the continuing financial viability of the practice, and the effectiveness of any current or new initiatives that intend to increase profitability.

The data your practice generates on a minute-by-minute basis can tell a story. If you can listen to that story—and act on what it says—then you're able to spot problems before they even arise.

This data allows you to become proactive and forward-thinking. Plans for growth can become realistic prospects, while making efficiency savings can be as simple as examining the data and putting basic changes into operation.

2

Organisational performance and efficiency

A practice consists of its clients—but also its staff. Paying attention to staff and their day-to-day work and how it can be optimised for the benefit of both parties forms the second pillar of the Efficiency Index.

Skills, versatility, and professional development form not only the bedrock of your existing performance measures but are also resources that should be invested in, in order to make improvements and create a map for growth.

3

Customer performance and efficiency

The final pillar serves your practice and your clients, in that it aims to measure effectiveness at creating value for both.

The broader picture

While the metrics examine client interactions, the data presented feeds into a broader picture that enables leaders to be proactive in creating new initiatives. It's about always working to create a bigger future for yourself and your clients. The true game-changer firm is driven to improve and grow. They are willing to change rapidly and learn faster than the competition.

Technology

It should hopefully be obvious by this point that a more fine-grained measurement of a practice's vital statistics cannot be achieved via pen and paper, or by the reliance on a single individual who contains the vital information in their head!

While the use of IT systems is a step in the right direction, more functionality than is typically provided within basic accounting software is required, as follows.

Data Hub – a data and analytics platform designed for accounting practices

Data Hub is a value driven solution that brings significant time savings in generating reports and sourcing information.

The solution delivers clearer operational insights by consolidating data from internal or external business management applications, for enhanced reporting and dashboard views that help drive competitive advantage for your practice and for your clients.

Keep track of your key practice metrics with a solution that can help you:

- Save time and allow more focus on insight and value added services
- Easily connect to all data sources used to enhance business reporting, both internally or externally in the cloud
- Gain easy access to analytics across your practice
- Work anywhere, anytime with mobile access
- Protect your valuable data with strong data governance (quality, administration, data security, usage auditing)

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Conclusion

If the Practice of Now is correct and there is a revolution within accounting taking place, then this has wide-ranging implications for how accountants view the way their practice works and how they measure performance—especially if there are plans for growth or to create efficiency savings.

The practice's processes, staff and finances must not only be monitored but managers must seek to get a fine-grained insight—and then execute on this information, moving away from any age-old reasoning or gut instinct-thinking.

Without data-driven decisions, any improvement plans are not only subject to failure but provide no means to discern failure points, thus potentially creating an endless cycle of effort-driven underachievement that's harmful to the practice, its clients, and its employees—in other words, a situation in which you are not running your practice but your practice is running you.

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