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Models of success?

The ability to develop new service offerings may determine the fate of accounting firms in the future.

By Jeff Drew

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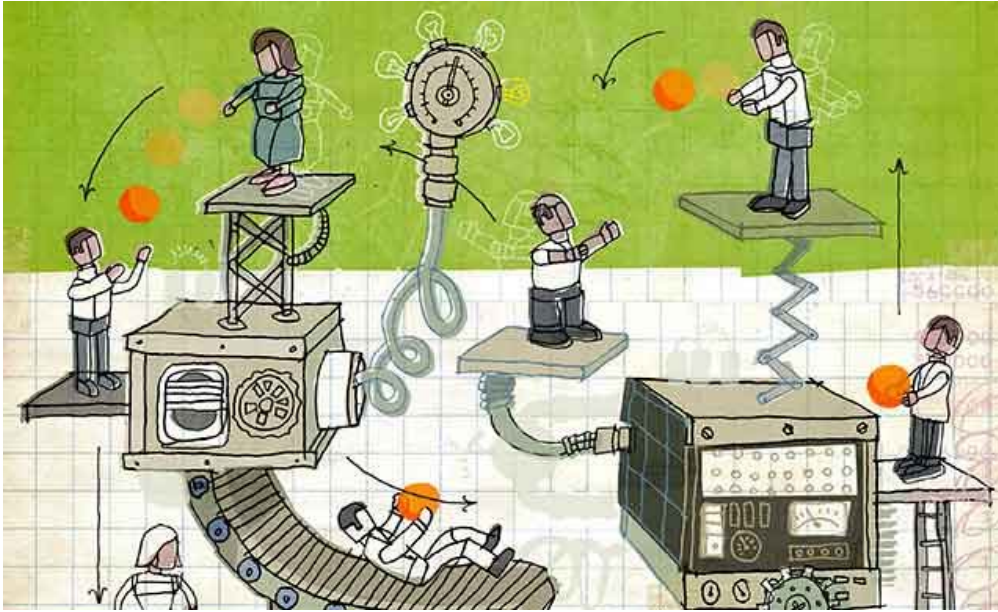


Illustration by Richard Borge/The iSpot

Adrian G. Simmons, CPA, would like to see the term “The Firm of the Future” become a thing of the past.

“[It] is somewhat of a limiting term,” said Simmons, chief creative designer of a Maryland accounting firm and co-founder of the Thriveal Laboratory. “It presents the idea that there is a single model we are evolving to. We need to get rid of that idea. ‘The Firm of the Future’ is really ‘Firms of the Future.’”

That concept was at the heart of the first experiment conducted by the Thriveal Laboratory, which was created by Simmons and Jason M. Blumer, CPA, chief innovation officer of Greenville, S.C.-based Blumer CPAs and founder of the Thriveal CPA network, a community of accountants pushing for creativity and change in the profession.

The hypothesis of the first Thriveal Labs experiment was that “there will be multiple successful business models for accounting firms of the future.” To test that hypothesis, Thriveal assembled a team of six small firm leaders to prototype new business models for public accounting—a process that reinforced Simmons’ belief that the ability to develop and adapt business models will be a key differentiator among accounting firms in the near future.

“Business model design is going to become a strategic skill that will become a competitive advantage,” Simmons said. “CPAs who have a comfort level playing with business models will be the ones who succeed.”

While Thriveal uses the term *business model* to describe the prototypes outlined in the experiment report, the models presented could also be adapted to lines of business within an existing firm. The tool used to develop the prototypes focuses on areas related to a line of business—customer segments and relationships, revenue streams, cost structure, and key partners, activities, and resources. It does not directly address culture and talent, other areas identified by the AICPA Private Companies Practice Section as essential in developing accounting firm business models. In light of those definitions, this article uses the term *lines of business* in explaining the Thriveal prototyping process and examining a couple of firms not associated with the Thriveal experiment that have found success experimenting with new business lines.

The firm of the future: A value proposition

Before you can relate the Thriveal experiment's conclusions to your firm's current situation, it helps to understand the context in which they were created.

Ron Baker, founder of the VeraSage Institute and author of several books, including 2003's *The Firm of the Future: A Guide for Accountants, Lawyers, and Other Professional Services* (co-authored by Paul Dunn), has largely popularized the concept of The Firm of the Future. Since then, Baker has emerged as the foremost proponent of value pricing in the accounting profession, arguing that accounting firms should abandon the time sheet and instead price their services based on the value they create for the client—a concept he explained in the November 2008 *JofA* article "[The Firm of the Future \(/issues/2008/nov/the-firm-of-the-future.html\)](#)" (page 68).

Baker says today that he agrees with Simmons that there is not just one definitive business model for accounting firms in the future. Instead, Baker defines the term business model as "How your firm creates value for customers and how you capture that value."

Despite the book's title, Baker says *The Firm of the Future* never argued that firms should adopt the same business model.

"We didn't use the term 'business model' in the book, as it wasn't in the popular lexicon back in 2003," said Baker. "The book ... advocates leveraging knowledge, not time, including the human capital of a firm's knowledge workers, along with its social and structural capital, effectiveness over efficiency, and value pricing over hourly billing."

In the past few years, Baker's concepts have served as the foundation for a vision of the future of public accounting that thought leaders in the profession have embraced and championed in books, articles, and conference sessions. Several variations of the vision exist, but most, if not all of them, attribute the following characteristics to the accounting firm business model of the future:

- Because technological advances and market forces will continue to commoditize core transactional accounting activities, including tax return preparation, accounting firms must focus on becoming trusted advisers that provide their clients with the insight, analysis, and advice needed to make quick business decisions and develop long-term business strategies.
- Because anytime, anywhere data access and advances in automation can make write-up work profitable, accounting firms can leverage client accounting and outsourced and/or fractional CFO/controller services as an avenue to build deeper relationships with clients, learn more about their business situations, and position themselves to provide proactive advice, helping to cement a role as the trusted business adviser (see "[From 'Write-Up' to Right Profitable \(/issues/2013/apr/20127002.html\)](#)," *JofA*, April 2013, page 24).
- Because increasing complexity will continue to make business decisions more difficult to assess and execute, clients will increasingly seek advisers who have expertise in their industry. This means that accounting firms should focus on developing great depth of knowledge in specific industry and subindustry verticals—specializing in, for example, not just restaurants but quick service chains. This approach is enhanced by the emergence of cloud and mobile technologies, which make data available on an anywhere, anytime basis and create communication channels that eliminate most geographic barriers to doing business. This, in turn, allows firms of all sizes to add clients, employees, and contractors in geographically diverse locations.
- Because trusted adviser and client accounting services do not readily lend themselves to hourly pricing, value pricing will emerge as the primary method for setting client fees and delivering higher profits, greater client satisfaction, and more growth opportunities for firms.

It is against this backdrop that the Thriveal Laboratory launched its first experiment.

Prototyping new lines of business

Simmons sees value pricing as a tool that helps to develop firm business models. In his view, value pricing enables innovation and exploration. Firms can uncover new opportunities for clients by asking probing, aspirational, open-ended questions about the client's business that are designed to determine which services the client might want or need. Value-pricing techniques then help the firm determine whether it can generate enough fees to make a profit on the engagement.

Similarly, firms can use the value concept to ascertain which opportunities to pursue in an increasingly segmented marketplace. "There are so many things we can do," Simmons said. "What the accountant of today is trying to answer is, 'What should I do?'"

To help with that process, the Thriveal Laboratory turned to the Business Model Canvas, a tool for visualizing and adapting business models created by Alexander Osterwalder as part of his Ph.D. dissertation for Professor Yves Pigneur at the HEC Lausanne business school at the University of Lausanne in Switzerland. The two explained the concept in the 2010 book *Business Model Generation*.

For its experiment, the Thriveal Lab had the participating practitioners create types of accounting businesses using the canvas, which constructs and deconstructs business models using nine building blocks ([click here \(/content/dam/jofa/issues/2015/apr/business-model-canvas.pdf\)](#) to download a PDF version of "The Business Model Canvas," developed by the Business Model Foundry AG). At the center of

the canvas is “Value Propositions,” where the prototype builder attempts to establish the reason for pursuing the business by answering questions related to the customer problems the line of business would solve and the value it would provide.

What the experiment produced

What happens when an accounting firm uses the canvas to develop and assess potential lines of business? The Thriveal experiment participants brainstormed and created a number of business prototypes, six of which are profiled in the group’s first lab report ([click here \(/content/dam/jofa/issues/2015/apr/lab-report-business-model-prototyping.pdf\)](#) to download a PDF version of the report). Here’s a quick look at two of those models (the rest can be viewed in the lab report PDF).

- *Middle-age children and their parents:* As people age, they sometimes become less able to manage their affairs. In those situations, their children might want or need to help. An accounting firm could be specifically structured to serve that market and provide the following value propositions: financial management for parents, tax preparation and retirement planning services for the children, and networking with elder care resources to help children find the assistance they need to care for their parents. Targeting upper-middle-class children with aging parents, the firm could use electronic bill-paying software and set up a system for digitizing and automatically paying the parents’ bills, generating the added benefit of providing an online transaction history for the children. In addition, the firm could partner with elder care attorneys to provide additional services.
- *Solo international tax specialist:* As more U.S. businesses and individuals pursue international opportunities, and more foreign investors move to the United States, CPA firms are increasingly running into international tax returns, along with compliance and planning issues. In this model, a CPA with specialized research tools and expertise in international tax accounting provides international tax services to accounting firms. This CPA mitigates the risk for accounting firms’ encountering international tax issues with which they are not familiar and also handles the international tax work for the client firms, providing expertise and allowing the firms to provide additional value to their clients at a lower cost than hiring an international tax law specialist of their own. The outsourced international tax specialist uses video conferencing and secure document exchange software to work with a select pool of accounting firms serving international executives or organizations with international business. The firms pay a fixed amount for annual access to the specialist.

How it works in real life

While the Thriveal experiment involved brainstorming different business types, many firms are trying and succeeding with business line innovation and adaptation. One example is Lord & Associates PC/CPAs, a 30-year-old Michigan firm that has been transformed in recent years.

“The biggest change by far has been when we switched to value pricing,” said Corey Lord, CPA, CGMA, the firm’s chief innovation officer and “virtual CFO.” “I thought it made so much more sense than billing by the hour, and it opened up new avenues for different types of services for us to offer.”

No longer worried about incurring additional fees under an hourly billing structure, Lord’s clients began to contact the firm much more frequently with questions and ideas. These interactions led to Lord’s adding consulting to its list of services. That, in turn, led Lord to determine that it should offer consulting services in specialized industries.

“The one that we chose was restaurants,” Lord said. “I’m a foodie, love food, love cooking. I used to work in restaurants, so I really understood the process and, now that I know the financial end of it, it’s very beneficial for me to bring that extra expertise.”

Lord also has experimented with different pricing models. Lord refers to one of those as “pay what you want” pricing.

“It’s basically value pricing without us actually saying anything about what we want for price,” he said. “One of our clients ended up paying us \$500 more per month than I thought they were going to offer. My original proposal was less.”

Another firm that has found success in developing new business lines is TYS, an accounting and advisory firm that offers a mix of attest, financial statement, income tax, bookkeeping, and consulting services for clients in three main categories—closely held and family-owned businesses; construction companies; and individuals and families. The firm, with offices in San Ramon, Calif., and Fairport, N.Y., hasn’t used time sheets in years, said co-founder and partner Tim Shortsleeve, CPA/CITP. Instead, TYS relies on value pricing as much as possible.

In some ways, TYS resembles The Firm of the Future described in so many articles and conference sessions. The firm leverages cloud-based software and automation to profitably offer write-up and “virtual CFO” services. The firm also offers consulting services while serving as the trusted adviser.

On the other hand, TYS still has some things in common with traditional accounting firms. For example, most of its revenue continues to come from attest and tax work, though the firm is striving to more than double its revenue percentage from consulting, to 25%. In addition, the process it's following to reach that goal dovetails nicely with the concepts of client interaction and business services evolution espoused by Simmons.

Before signing on a new client, Shortsleeve likes to hold an initial meeting where he asks questions designed to help him understand the client's business and objectives. The key to this process is listening.

"It's about two ears and one mouth and being curious," Shortsleeve said. "It's asking questions. The numbers tell a little bit of a story, but what does success look like? What's keeping you from getting there? Sometimes, clients know the answer, and sometimes they don't."

Shortsleeve often goes through a similar process with existing clients, or he'll just call them with an idea. Because TYS does not bill by the hour, the clients don't have to worry about incurring extra charges talking about their business with the accounting firm. Ultimately, the key is to find out the reasons driving the client's decisions, performance, and goals.

"There are two components: What does success look like? And what will it do to your business?" said Erin DiVincenzo, marketing manager for TYS and Ledgers Inc. "It all goes back to understanding why."

DiVincenzo joined TYS in 2013. The former owner of a marketing and advertising agency, and a former TYS client, DiVincenzo has helped to diversify her new employer's trusted adviser offerings.

"When we do trusted adviser services for clients, we frequently discover they need help with their marketing strategy," Shortsleeve said. At that point, DiVincenzo will step in to help the client develop and implement an advertising and marketing strategy. "She basically becomes the quarterback," Shortsleeve said. "She will participate in the implementation, but she's not the one executing it. She'll help them interview consultants, or if you hire someone to do the website or social media, she'll participate in that process."

With the addition of DiVincenzo, TYS boosted the scope of the consulting services it offers, creating extra value for clients, which translates into more revenue for TYS. This evolution of the firm's service offerings took place organically but resulted from the firm's asking questions of its clients and determining what services were most needed and valued.

"Our purpose is to change people's lives," Shortsleeve said. "We can't do that unless we participate in a deeper level than just the financial statement and tax returns."

The future is now

As the accounting profession continues to undergo unprecedented change, more and more firms will have to take a hard look at how and why they run their business. Firms will need to develop the skills to accurately assess market conditions, business opportunities, and their own operations and motivations. The ability to create, evaluate, and adjust lines of business is poised to emerge as a key differentiator in the marketplace.

The approach used in the Thriveal experiment is just one option for accounting firms looking to diversify—or even transform—their business. Firms have many options as they adjust to the needs of the marketplace. It's a process that starts with a look inside the firm—its culture, talent, and goals.

"Building the business model of the future has many elements, with client strategy being one component," said Mark Koziel, CPA, CGMA, vice president—Firm Services & Global Alliances at the AICPA. "Other important factors to consider as you build your model would include firm structure, staffing, culture, and technology. Structure would be the optimum starting point to figure out what you want the firm to look like in five years and what you can do to remain relevant and competitive. Then figuring out who you want to serve, who will help you serve them, and how you will serve them rounds out the building of a full business model."

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AICPA RESOURCES

JofA articles

- "[Q&A: Should You Dump the Billable Hour? \(/news/2015/feb/firm-billable-hours-201511763.html\)](/news/2015/feb/firm-billable-hours-201511763.html)" Feb. 10, 2015
- "[From 'Write-Up' to Right Profitable \(/issues/2013/apr/20127002.html\)](/issues/2013/apr/20127002.html)," April 2013, page 24

- "[Pricing on Purpose: How to Implement Value Pricing in Your Firm \(/issues/2009/jun/20091530.html\)](#)," June 2009, page 62
- "[The Firm of the Future \(/issues/2008/nov/the-firm-of-the-future.html\)](#)," Nov. 2008, page 68

Conference

Practitioners Symposium and Tech+ Conference, June 7–10, Orlando, Fla.

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Private Companies Practice Section and Succession Planning Resource Center

The Private Companies Practice Section (PCPS) is a voluntary firm membership section for CPAs that provides member firms with targeted practice management tools and resources, including the [Succession Planning Resource Center](#) (<http://www.aicpa.org/INTERESTAREAS/PRIVATECOMPANIESPRACTICESECTION/STRATEGYPLANNING/CENTER/Pages/default.aspx>), as well as a strong, collective voice within the CPA profession. Visit the PCPS Firm Practice Center at aicpa.org/PCPS (<http://aicpa.org/PCPS>).

OTHER RESOURCES

Publication

Implementing Value Pricing: A Radical Business Model for Professional Firms (<http://www.tinyurl.com/kco35q6>), by Ronald J. Baker



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