CALM AT THE END OF THE STORM:
The recession's impact on CPA firms at the dawning of a new decade

By: Marc Rosenberg, CPA

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 CPA firms across the country, firms got their wish: The surveyed firms showed a 0.6% increase in annual net fees in 2009 vs. 2008 – about as flat as it gets.

For the past 10 years, we have maintained what we call our "National E-mail Managing Partner Roundtable." It consists of roughly 100 accomplished managing partners of CPA firms across the country. 54 firms responded in January and early February to a series of questions regarding the impact of the recession on their firms.

- 12 firms have annual fees of $2 to 5M.
- 28 firms are $6 to 10M.
- 14 firms are over $10M

Interestingly, there was very little variation in responses between the three different size groups.

2009 vs. 2008

Fees were flat across all size ranges. The good news is that the ability of CPA firms to be somewhat recession-proof prevented the dreadful losses experienced by many industries due to the world economic crisis. The bad news is CPA firms aren't used to flat growth, having experienced double-digit growth rates for most of the post-Enron/Andersen years. Yes, they got their wish to stay even with 2008 but it did little to ease the pain of laying off staff, cutting costs and dealing with clients who suffered enormously from the recession, the latter of which took its toll on firms' accounts receivable, work-in-process and billing rates.

Income per partner was down 2.5% in 2009 vs. 2008. Most of this income decline was due to the late start most firms got in right-sizing their firms to the current year's fee volume. Because the majority of layoffs and cost cutting moves were made toward the end of the 2009 tax season and soon after April 15, firms were over-staffed during a portion of the revenue year. Somewhat offsetting this was the fact that the tax season is the busiest time of the year, so being overstaffed didn't hurt as much as being overstaffed outside of the tax season.

2010 vs. 2009

Fees are projected to increase in 2010 by 3.0% across all size ranges. 3% is certainly better than flat growth, but it's a far cry from the Golden Age that typified the years since the Enron/Andersen fiasco. So clearly, firms are coming out of the slowdown and seeing light at the end of the tunnel. But the tunnel is long, and 2010 will be a sluggish year. 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, both at the staff and cost control fronts, will 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. But when we look at the results by size of firm, we get a different picture:

- In the $2 to 5M group of firms, 50% laid off staff in 2009.
- In the $6-10M group, 39% laid off staff.
- In the $10+M group, 71% laid off staff.

Smaller firms had the most difficult time finding staff, so they were less over-staffed when the recession hit. The larger firms enjoyed a bigger boom than the smaller firms from 2002 to 2008 and hired as many qualified staff as they could because they were confident of getting new revenue to keep them busy. When the recession hit, the larger firms were more exposed than the smaller firms.

Have firms seen a meaningful increase in the *quality* (not quantity) of staff available in the market?

This is one of the most curious issues I have seen during the past 18 months. For the first time in 15 years, there is a bountiful supply of experienced staff available for hire. Some firms claim that these are the weak people who were let go by firms and, therefore, are not worthy of being hired. But more firms found the opposite, according to our survey: Overall, 65% saw an increase in the *quality* of available staff and 35% did not. A breakdown of these results by size range is revealing:

- 75% of the $2 to 5M group found a meaningful increase in staff quality available.
- 68% of the $6-10M group found this quality present.
- 50% of the $10+M group found the quality present.

So, the larger the firm, the less likely it was to see a meaningful increase in the quality of staff available for hire. This makes sense because, generally speaking, the performance bar is set higher at larger firms than at smaller firms.

Did the firms hire these newly available staff?

60% said yes and 40% said no. This is pretty amazing: despite the fact that firms were reeling from the recession's impact, as they were laying off staff, they were hiring new people. The combination of the recession and the industry's staff layoffs enabled many firms to do something they had wanted to do for years: upgrade the quality of their staff. Until the fall of 2008, practically all firms were forced to lower their standards for hiring and retaining staff because they were desperate for labor, *any labor.*

Hiring plans for 2010

- Only 17% of the $2-5M firms plan to hire in 2010.
- 50% of the $6-10M firms plan to hire in 2010.
- 43% of the $10+M firms plan to hire in 2010.

Clearly, the smaller firms are more conservative. The larger firms are more aggressive.

Only 9% of the 54 surveyed firms plan to lay off staff in 2010. This compares to 50% in 2009.

Spending marketing dollars in the recession years

Conventional wisdom says that in down years, firms need to *increase* their marketing commitment because they have to work harder to grow. 2009 was such a tough year that a lot of firms did not increase their marketing expenditures. But with the recession showing signs of ending, 2010 looks like the year firms will commit to marketing in a more conclusive way.

	2010	2009
Firms *increasing* their marketing expenditures	62%	44%
Firms *decreasing* their marketing expenditures	2%	26%
Firms reporting this the same for both years	36%	30%
Total	100%	100%

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

Some industry pundits opined that with a recession, the intense merger market would cool off. The thinking was that buyers were hunkering down to focus on their own problems and sellers were temporarily pulling out of the merger market until they could post stronger profit numbers to drive a better bargain.

Based on our survey, the above didn't happen. Only 4% of all firms held off on mergers. 32% said they were continuing to pursue mergers as in the past and 64% reported no change from the prior year. The "no change" could be that those who were pursuing mergers continued to do so, and firms that were not pursuing mergers continued to stay out of the merger market.

Tactics and strategies to weather the storm

The following actions were being taken by firms (the number in parenthesis is the number of firms citing the same response):

- Spending more time with existing clients: finding ways to better serve clients, helping clients weather the storm. (13)
- More marketing and practice development: networking; formalizing the goal setting process for partners and managers in selling, more aggressively target niches, being more proactive in asking clients for additional work; focus more on smaller clients of Big 4 firms. (12)
- Improving processes, efficiency and productivity. (10)
- Keeping fees down to show sensitivity to beleaguered clients. (4)
- Watching receivables very closely, minimizing risk wherever possible. (3)
- Finding increased opportunities to get smaller clients from bigger firms due to servicing problems and/or high fees. (3)

The following were only cited by one firm, but they are excellent ideas nonetheless:

- Be sure to reward strong employees.
- More soft skill training.

- Bill poor realization clients more aggressively.
- More partner accountability.
- Increased communications to our staff, who are concerned about the firm.
- Sticking with our core strengths.
- We are watching non-billable time of partners and staff.
- Focusing more on comparing actual billable time to budget, by individual.
- Getting the work to the right level.
- Using seasonal accountants more than ever before.

Marc Rosenberg, CPA*, is a management consultant to CPA firms nationwide. For the past six years in a row,* Accounting Today *magazine has acknowledged Marc Rosenberg as one of the 100 most influential people in the CPA profession.* INSIDE Public Accounting *recognized Marc as one of the most recommended CPA firm consultants in the country. Rosenberg is a widely published consultant. His articles regularly appear in all the industry's leading journals. He works with firms in partner compensation, retirement and succession planning, mergers, facilitating retreats, strategic planning and practice management reviews. His firm, The Rosenberg Associates, is based in Wilmette, IL. You can reach him at (847) 251-7100 and at marc@rosenbergassoc.com.*