Show Me the Money!
Surviving Recession and Helping Your Practice Grow

By John McCarthy, FCA

The old adage 'cash is king' was never truer than it is in these times. All practices are facing reduced turnover ranging, in some cases, from 10% to 20%. This reduction in the top line is placing increased pressure on practice cash flows and firms are then faced with reducing their overheads and seeking increased efficiencies in production. While profit is good and – ultimately – essential to the viability of the firm, it does not keep the doors open. Cash does.

An accountancy practice is a business and like all other businesses when cash flow is under the kind of pressure that we see now, the presence or absence of good practice management will be more obvious. Like some of their clients, poorly managed firms may have been relying on credit from the Revenue Commissioners or their suppliers to finance staff wages, their largest cost. Yet when cash inflows are squeezed, this poor cash technique is truly tested.

CPD is one of the overhead costs that accountants seem to be cutting at present and especially courses on practice management. How short sighted can you get? It is at this very time that firms need to increase their focus on improved practice management techniques, not abandon them.

In what follows I highlight some tips to improve cash collection and practice management generally.

Your firm's billing and collection practices are more important now than ever, given the uncertain economic situation and the likelihood that growth, if there is any, will be slow.

Firm owners must see to it that their bills are prompt and clear and that they collect what is owed for their services. Unresolved issues with billing and collection (like clients 'losing' the fee note) can undermine all your good efforts to enhance partner profits, so it's wise to review and strengthen your procedures.

Evaluate your new client take-on procedures

Whatever your firm's current situation, you need to be more careful than ever before when accepting new clients. Firms that need the work may be tempted to take any client that comes through the door. The first client interview is the best time to weed out potentially unprofitable work.

Don't discount your firm's rates to win work

When you're trying to build volume by bringing in new clients, or just trying to keep existing ones, you may be tempted to offer discounts, but this can be a slippery slope to declining profitability. Nor do you want to be in the position of having to increase fees that were too low at the start of the engagement; it will take too long to get them up to where they should have been in the first place. The value of your services is inherent in everything you do – including how you price them. The implications for cash flow are that you may not be collecting sufficient fees (inflows) to cover your cost of services sold (outflows).

Consider alternatives to hourly rates

Using alternatives can help your firm better market its services and gain the appreciation of clients that will be more likely to pay promptly. You can agree fixed fees for certain work, use a combination of fixed plus hourly (depending on the engagement), or set hourly rates with a floor and a ceiling.

Try to get cash in advance

Getting cash in advance is always the best option, especially for ongoing assignments or for large and complicated engagements that will involve a series of bills. Three months of fees is an acceptable amount to ask for at the start, and then have the retainer "replenished" if the work is still ongoing. Never use the term 'cash up front'. Instead call it a 'payment on account' as it sounds less offensive.

Protect billable time

Administrative staff are best suited to handle billing matters, and the firm must offer them proper support. For partners to maximize their billable hours within the firm, they must be free of non-billable tasks and distractions. This includes having a centralised approach to engagement letters, fee schedules, and billing methods. Putting these functions into the hands of your office manager, receptionist, bookkeeper or other administration specialist can free time for chargeable work. It also ensures consistency in the language of engagement letters and in your approach to billing and collection.

Use your profit sharing system to reward partners who do well with collections

Firms can set this up in a number of ways: Rewards can be based on a pre-agreed scoring system or on an objective formula, where a portion of the firm's profits are set aside for rewarding good debtors' collection, and included in year-end bonuses.

Ensure that your bills are clear, concise and leave no room for client confusion

Get all partners and chargeable staff into the self discipline of recording their time during the day on time recording software. It should document what was done for the client and why. If the time records are summarised and reported upon on a weekly basis, this discipline pays off by streamlining the billing process.

Too many fee notes have sentences that say 'time spent preparing your tax return'. This makes accountants sound like they represent the Inland Revenue. Instead the fee should say 'time spent helping you pay less tax using every legitimate means possible'.

When clients receive bills that contain clear, crisp language and that show what was done and by whom, they are much more likely to make prompt payment without the need for debate or clarification.

Let your accounting or admin department issue all bills

Partners can write a personal note to accompany the bill if they want to, but let the administration staff see to it that the bills go out. This ensures prompt, efficient, and regular billing.

Send bills by e-mail

Use technology to the maximum by e-mailing or faxing your final bills – or even all your bills – to clients. These can be followed up with a paper bill if the client requests.

Accept credit cards

The firm gets its money on time and solves its collection problems faster.

Draft comprehensive letters of engagement

If you are still using last year's engagement letters, you need to update them

The environment is constantly changing and it is important that your engagement letters reflect this. For example, the phrase 'Companies Acts 1963 to 2009' came into effect for audit reports signed on of after 12 July 2009 in the Republic of Ireland. Similary, in Northern Ireland, the phrase 'Companies Act 2006' came fully into force from 1 October 2009.

Make sure your engagement letters touch on all the necessary areas. You may need to adapt the letters for specialised services and niches. When this has been done, supply copies of your suite of engagement letters to your professional indemnity insurer at renewal time to demonstrate that you make good use of effective engagement letters in your business processes. Good engagement letters help reduce your potential exposure in the event of a claim against your firm.

Visit and survey your firm's top clients

Your managing partner or lead contact partner for each of the top 15 clients should visit them at a time when there are no other issues on the agenda. These meetings are about allowing the client more time to chat about their business worries, rather than dealing with pressing tax or filing deadlines. In addition to using these meetings to cross-sell and keep clients enthusiastic about your firm, such encounters can help with cash collection.

Make professionals accountable for time-sheet deadlines

Ideally, all partners and staff in your firm should submit time sheets by the first working day of the week. Some firms will even go so far as to penalise staff and partners by reducing their annual leave by a day for every day they are late with their timesheet! Are you that brave?

Bill monthly

If your firm bills quarterly, up to seven months can elapse between the time you bill and the time you get paid. Draft bills should be prepared by the end of the second or third working day of the month, so staff have their final bills back in by the seventh working day of the month.

The goal is to get 90% of your bills out the door by the 18th calendar day of the month.

Remind staff that monthly billing cycles are better for cash flow. Also remember that clients are generally more willing to pay smaller bills than larger ones.

Give everyone who discusses billing and collection issues access to work in progress and debtors' ledgers

These should be on your firm's network or intranet so your firms' partners and managers can see detailed information about the client, including contact information, engagement specifics, and a chronological list of fees issued and cash collected. Not only will this allow the firm to track trends, but you'll be able to immediately spot a client that used to pay bills regularly but has stopped.

Analyse your clients

A client-quality analysis will help you determine the average rate per hour worked and rank clients according to write-downs, write-offs, quality of records or speed of payment. The most profitable clients are not necessarily those who pay the highest hourly rates, although this should be a factor in your firm's ongoing assessment of "A," "B," "C" and "D" class clients.

Examine realisation by partner and department

Divide income that's come in the door by the number of hours worked to determine this valuable benchmark.

Collect within 90 days

It can be the difference between a client that's going to pay and one that isn't. If you have more than 40% of your aging in excess of 60 days, your collection methods are not very good.

Make partners and staff accountable for late billing

Although it's hard to keep up with timesheets during a busy season (e.g. before mid November in the Republic of Ireland and before 31 January in Northern Ireland), it's the only way to keep your bills current. If necessary, hold back a portion of partner drawings or take other action to enforce your time-sheet deadlines. While you can't hold back staff pay, you can track late billers and penalize them in terms of bonuses or other perks.

Responde quickly to 'missing bill' enquiries

Use fax or e-mail, and call after you reissue the bill to see if they have any questions.

Know when to make and accept offers

Sometimes you've got to accept that you're fighting a losing battle.

Taking 80% payment is better than nothing. Invent a procedure for determining when to quit pursuing full payment, so that your administration and billing personnel know what rules apply.

Communicate proactively

Keep clients informed with personal notes and calls from partners in charge of their engagements. Make it a priority to return calls and e-mails from clients promptly (e.g. within 24 hours is a reasonable expectation), and encourage all staff to do this as well. Poor communication – or the perception of it by clients – can seriously affect your firm's billing and can hamper your efforts at improving collection.

Conclusion

While profit is good and – ultimately – essential to the viability of the firm, it does not keep the doors open. Cash does. So stick to the basics and get your practice management right!

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