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The Biggest Concerns Of Small Accounting Firms

Small accounting firms (five or fewer equity partners; maximum of \$10 million in annual revenues) are under significant pressures that, looking forwards, will impact their profitability and likely reconfigure key aspects of the profession. According to a survey of 301 such firms, the managing partners have a number of interrelated concerns. Topping the list is increasing competition. About 85 percent of them reported they now feel that they are operating in a hyper-competitive environment resulting in some accounting firms cutting their fees to gain market share. Correlated with this issue is fee pressure noted by about seven out of ten of those surveyed.

Slightly more than four out of five managing partners said they were very concerned about an inability to grow their firms. Only about 16 percent said their firms were organically growing. The remaining managing partners split fairly evenly between being stable and declining.

Related to the pervious issue, three quarters of the managing partners reported they were seriously anxious about not being able to regularly source new high quality clients. For many types of accounting services, such as compliance, prospective clients often had to be disenchanted with their current providers, and they must also be aware of an alternative. As only about one in ten of these firms have formalized, structured marketing efforts, it is up to the partners themselves to “network” and bring in new business. This often proves problematic, as these same partners are usually quite busy servicing clients.

Staff recruiting and continuity was noted by 77 percent of the managing partners as a major concern. Getting competent

professionals and support people is turning out to be very hard for many of these firms.

As the majority of these managing partners are over 50 years old, another major concern by 67 percent of them is succession/exit alternatives. To address this matter, 62 percent of them have looked at selling their accounting firms. At the same time, about a third of them have considered buying other accounting firms with the idea of eventually being personally bought out.

For the immediate future, these concerns translate into the very real possibility of lower partner compensation. Almost three quarters of the managing partners foresee this as a strongly possible scenario.

For smaller accounting firms, the prospects are not especially exciting. Working hard to stay in place appears to be the norm. While there are strategies that can enable these firms to grow and meaningfully increase their profitability, relatively few small accounting firms are actively embracing these approaches.

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