

# Chapter 4: Critical Considerations

*If it's your job to eat a frog, it's best to do it first thing in the morning. And if it's your job to eat two frogs, it's best to eat the biggest one first.*

— Mark Twain

As with any new business, a CPA practice requires time, money, energy, and creativity. By planning in advance, you can better anticipate your challenges and create solutions beforehand.

The critical considerations that practitioners typically face are managing time, anticipating financial needs, addressing competition and economic determiners, obtaining a client base, making the transition from prior employment to ownership, family involvement, and understanding potential stumbling blocks.

We will address each of these considerations throughout this chapter.

As you contemplate each consideration, I recommend you write down how you plan to address each one in light of your own unique needs and expectations.

## Managing Time

Typically, CPAs who want to go solo have prior work experience in government, education, or the public and private accounting sectors. This past work experience is extremely helpful in that it provides technical knowledge as well as practical experience—both of which are important to successfully running a practice. One of the big differences, however, between being employed by others and operating your own practice is in how you manage your time.

When you are employed by someone else, you work on assigned clients or specific projects with little worry about the administrative and practice development aspects of the business. That's usually handled by someone else. In your own practice, you get to do it all.



## On Your Own!

You have to search for the optimal balance between chargeable and administrative time, as well as balance between time spent working and free time. No one decides this structure for you, so it takes some planning and discipline.

Chargeable client work, new client development, nurturing client relationships, administering the practice, and professional and community activities are all your responsibility. How well you balance these many facets of a practice will affect your success and profitability. There is, however, no one size fits all formula. Again, your strengths should eventually determine how you spend your time and what you delegate to others. How you spend your time will evolve as your practice matures.

As a framework for evaluating the type of schedule you can expect as a sole practitioner, a sample breakdown is as follows:

1. *Chargeable time.* According to one accounting survey that monitors the operating and statistical results of private CPA practices, an established sole practitioner averages around 1,300 chargeable hours a year.<sup>1</sup> Realistically, the beginning sole practitioner will not achieve this, but this is a good goal. I recommend blocking time to work on client files to increase efficiency. Distractions and interruptions can sap your productivity, so create the privacy you need to work and give your clients your best. You don't have to answer every phone call or return every e-mail as it comes in. (To earn additional income while establishing a client base, you can supplement your practice with contract work or teaching. Both options typically provide lower pay than normal CPA services, but they can help you earn enough money to live on while you get the practice off the ground.)

It is important to mention that time spent should only be one aspect when deciding what to bill clients. Your real focus should be to maximize not hours but the value that you deliver for your clients. The time spent on a client file does not directly correlate to value delivered. For example, an hour spent doing bookkeeping work is less valuable than an hour spent doing high-level estate planning. In either case, the client doesn't really care how much time you spend. Fewer people can do the estate planning work well, and clients know this. A good estate planner can create significant value for the right client. The best bookkeeper in the world will only be able to create so much value doing bookkeeping. They are paying for your expertise. Billing should focus

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<sup>1</sup> The 2010 PCPS/TSCPA National Management of an Accounting Practice (MAP) Survey, p. 6. According to the 2012 MAP Survey, this number has held steady since 2008.



on the value delivered to the client. That can be a difficult concept for someone who has always been paid for their time as an employee. All hours are not created equally.

2. *Practice development.* The second largest number of hours must be devoted to practice development, which includes lunches, entertaining, phone calls, meeting clients and prospective clients, civic and social club meetings, seminars, mailings, and so on. The number of hours needed for business development varies for each practitioner. At a minimum, you will probably spend between 4–12 hours per week or 200–600 hours per year on the development of your practice. One way to schedule this is to have a “marketing day” for one full day each week when you focus on business development and then block additional time in your schedule for follow-up calls and e-mails. Before you accumulate several clients it’s smart to spend your extra work time on business development. As you build up more client work, you can then reduce your business development efforts accordingly.
3. *Technical update.* Keeping current on changes in the CPA profession requires a regular outlay of time. Expect to spend
  - 40–60 hours a year studying topics of interest.
  - 40 hours a year to fulfill the standard continuing professional education requirement.
  - 150 hours a year (2–4 hours a week) for technical reading.Altogether, you can anticipate spending between 200–300 hours a year on technical updating.
4. *Firm administration.* Books, financials, billing, timekeeping, forms, programs, software updates, scheduling, filing, housekeeping, and other administrative duties consume a significant amount of time requiring approximately 200–400 hours per year (4–8 hours per week). Because your time is better spent on higher-level client work, practice development, and technical updating, it is wise to use an administrative assistant who can handle as much of this work as possible. A good, experienced assistant can help you become far more productive and successful. If at first you are the only person administering the firm, once again, I recommend blocking time to focus on these tasks as well. Fridays, for example, can make very good days for administrative tasks. The fewer distractions, the better. As your practice grows, this might be one of the first delegations that can help you the most.
5. *Free time.* I have saved the best for last and have a lot to say on this topic because a lot of starting practice owners do a terrible job of making free time for themselves. When starting a business,



you will have a lot of energy and enthusiasm and will want to spend a lot of time working. That's great, and it is a good use of your effort. However, it is really important to take time to do things that you enjoy away from work too. You may not be able to, or even want to, take a significant amount of time off during the start-up phase of your business, but some of the most efficient, effective, and successful operators I know do take a significant amount of time off each year. It is something to work toward. My observation is that when you are away from your practice, you are far more likely to come up with the creative and critical ideas that have the power to significantly advance your practice and keep it on track with your plans. Some people thrive on nonstop schedules and build solid practices along the way. My experience, however, is that the burn-out rate among those type As is very high. Other parts of our lives suffer significantly when we work too much. Study after study supports the fact that the most successful people are the ones who maintain balance between their professional and personal lives. My main point here is not to overwork in the beginning.

Plus, taking a vacation is a great excuse for checking in with your clients. Inform your clients a month or more in advance that you will be leaving for a vacation. By doing so, you are managing their expectations. If they know that you will be unavailable for a specified length of time, then there are no surprises. By giving them prior notice, you are, in effect, prompting them to bring up any issues ahead of time. Work with them to anticipate deadlines and potential problems. As they think about their needs more clearly, you might find yourself pleasantly surprised with what special projects come about during this prevacation time period. When you return, clients will want to hear about your vacation. You'll get to enjoy the memories of your holiday by sharing your stories, and in that way, your client relationships are nurtured.

In this digital age of instant and constant communication, getting away has never been easier—or harder. Without question, vacations should be completely “unplugged.” That means severing the cords, literally and figuratively—the smart phone, the laptop, the e-mail. It helps if your spouse or someone in your life can help you with this, whether as enforcer or reenforcer. I remember one of the first vacations I took with my young family when I started my current business. We decided to go on a cruise to the western Caribbean. Our three children—ages 10, 6, and 7, at the time—were uninterested in the kiddie day camps the cruise offered, so keeping watch over them at the time took some effort from me and my wife. Though very enjoyable and memorable,



the days were not particularly relaxing. And to top it off, I just couldn't peel away from work entirely. The laptop got packed along with the sunscreen, and, as a result, I would dutifully—habitually—check e-mail 2 or 3 times a day. What happened was quite predictable. Luckily, I'm able to look back and laugh at it now. I would tell my wife I was going to the Internet café for a few minutes. "Be right back," I'd promise. As it goes with work, a few minutes usually turned into an hour—or more. My wife was a real sport, but at the end of the trip, she turned to me and said, politely, but in a tone and with a look in her eye that left no uncertainty, "I had a great vacation, but if you ever bring that computer again, I'm throwing it in the water." She's a firm believer in boundaries. I got the message. When I take vacation now, I go completely wireless—as in unplugged. No phone, no e-mail access (have your assistant do that for you or simply set up auto-replies for e-mail and change the message on your phone). Not only are my vacations much more pleasant now, they're also much more productive. My batteries are recharged, the "aha" moments come, and I head back to work with a fresh perspective—a better sense of the forest and not merely the trees. It's the by-product—and beauty—of balance.<sup>2</sup>

From my own experience, I find it is helpful to schedule the entire week in advance. I schedule my personal and family commitments along with my work schedule. Although I do not always meet this schedule, it helps me be flexible without getting too far off track from the original goals and helps me plan catch-up activities in the following weeks.

## Anticipating Financial Needs

Anticipating how much capital you need to get started is critical. An undercapitalized venture can quickly fail. If you think about your own experience with undercapitalized clients, you can easily see the picture. Typically, the client cuts corners, undervalues services, uses unconventional financing, puts undue pressure on employees, and even takes on projects he or she should not, just to get the business in the door. This can happen to you if you start your practice with inadequate start-up cash. It's better to start with more cash than you think you need.

**Important:** If you cannot get the necessary finances to cover your fledgling practice, then you should wait to go solo until you can. (Chapter 9,

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<sup>2</sup> Portions of this section are reproduced from *The Accountant's Flight Plan* by Brannon Poe (2010).



“Financing Your Business,” discusses the subject of finances. If you consider financing a potential problem, you may want to review that chapter now.)

## **Addressing Competition and Economic Determiners**

Sole practitioners have multiple competitors. These include other multi-partner CPA firms and non-CPA accountants, who often offer accounting services at reduced rates. In addition, in the highly complex tax field, there are a multitude of enrolled agents, non-CPAs, moonlighters, banks, and national and local tax services. Now technology is also changing the landscape. People with simple tax returns have access to online software that is user-friendly and very low cost. In unconventional services, there are chartered life underwriters and financial planners in investments, consultants and sales firms in computer services, and management firms and consultants in advisory capacities. All these companies and individuals contend for the sole practitioner’s clients. Before commencing your practice, know your competition. Then pinpoint your target market for your CPA services and design a plan of action for capturing that market. (Chapter 5, “Generalist or Specialist?” and chapter 11, “Building Your Practice,” describe in more detail how to define your market and how to sell your services.)

In addition to coping with competitors, the sole practitioner must also take into consideration how the economy might affect practice growth. Taking a healthy look at the past, present, and future economic prospects in the area where you plan to practice is as important as assessing your potential competitors. Obviously, if the area where you want to practice is economically depressed, you may want to choose to move where your chances of success are greater. You face enough obstacles in going solo without increasing the problems or difficulties caused by weak demand or oversupply in the market.

## **Initial Client Base**

Establishing an initial client base will take a great deal of time and effort, and CPAs who want to start their own practices should be realistic about this important aspect of practice development. If you can count on a small nucleus of clients (anchor clients) that assures you a specific amount of work each year, you can better estimate your financial needs and your potential profit. This nucleus of clients can come from different sources: clients for whom you provided services while moonlighting during your former employment, contacts you made socially, and,



in some instances, clients who switch from your former firm so you can continue to do their work.

The following questions should help you determine whether you have the potential to draw clients to your practice or whether you need to spend more time working to create this base before going solo:

1. Do I know 200–300 people to whom I can send announcements concerning my practice and be reasonably sure they know who I am and would take note of the opening of my practice?
2. Have I been professionally active, and is my name easily recognized in my area for accounting and tax work?
3. Am I active socially? Do I participate in church or synagogue activities, neighborhood functions, civic organizations, local politics, or similar activities?
4. Do I know, or have, at least a passing relationship with a dozen or more attorneys, bankers, insurance agents, stockbrokers, and real estate salespeople?
5. Can I easily introduce myself to new people who could be potential clients?

If you answer yes to question 1, you can feel comfortable that you have the basis for establishing a practice. From the 200–300 people you contact, you should expect a few new clients. More important, this list becomes your basis for acquiring new clients or referrals for potential clients. When you couple this working list of potential clients with other practice development techniques (discussed in chapter 11), you should be able to generate the necessary client base to support your practice during its initial years.

Questions 2, 3, 4, and 5 also refer to conditions instrumental in assuring a solid client base. Although these activities do not carry the weight of the first one, they indicate your ability to connect with prospective clients and should be thoughtfully considered.

Develop your plan of action for attracting clients before starting your practice. However, as long as you are employed by someone else, be prudent about how you obtain clients for your future practice. What should you do about clients who are ready to use your services before you are ready to start your practice? As long as you are working for someone else, you have an obligation to your employer, and, regardless of your employer's response to your leaving, remain fair, ethical, and professional in your actions. Keep in mind that you want to part with your employer on good terms. This is important because your employer can be an excellent source of referrals.



## On Your Own!

One way to obtain the future clients you want while still employed elsewhere is to focus more of your energy in social, civic, and professional activities. You can also take advantage of your firm's professional development activities, such as in-house training, seminars, and firm administration and personnel development. The training not only makes you more useful to your employer but also helps prepare you for going out on your own.

## Shifting From Employee to Owner

Your attitude and confidence is huge in making the shift to becoming a business owner. You have to be able to keep your eye on the prize and smile and enjoy the challenges of building a business. You are not simply running a business, you are building one. You must be enthusiastic and confident that your plan will work. Consider the following points:

1. Nearly everyone you now meet is a prospective client or referral source.
2. Your work schedule requires more time and energy, not only for performing tax and accounting services, but also for developing new clients. Social, civic, and professional activities in the evenings or on weekends are also an important source for new clients.
3. Involvement in various community and professional organizations, both inside and outside your practice, should be expanded. In addition, strive to increase the degree of responsibility you assume in these activities. Instead of merely belonging to a group, seek to be a leader, for example, chairperson, board member, or president.
4. Your confidence and professional reputation will help to attract clients. Be aware of how you carry yourself—your appearance, language, office atmosphere, decor, and so on. You should always be authentic, but know that when you are serving the public, you will necessarily have a more public persona.
5. You must think of yourself as a leader, an employer, an entrepreneur, and a salesperson. Adopt and project the image of a take-charge professional.

## Family Involvement

We have already considered the importance of balance. In some instances, CPAs involve their spouses or partners in their practice on a



day-to-day basis, and this involvement can be beneficial. However, before the decision is made to work together, you should both consider the potentially positives and negatives. In some cases, your significant other might better help your practice by contributing income from another job. Relationships are so important, and working together may or may not be good for the relationship.

Regardless of the extent of your family's involvement in your practice, be sure you have established good communication. Because a practice demands a great deal of your professional and emotional energy, sharing your hopes and fears with your family is very healthy for all involved.

## Understanding Potential Stumbling Blocks

Despite planning and preparation, new practices do run into problems that can ultimately cause them to fail. These stumbling blocks fall into three categories:

1. Insufficient client base
2. Poor selection of a partner or other business associates
3. Bad choice in a practice acquisition

From my experience advising owners, I have found that these problems usually occur because the practitioner lacked objectivity (underplanned) or was just overconfident.

### ***Insufficient Client Base***

An insufficient client base is the first and most critical stumbling block. Starting practitioners may unrealistically expect certain clients to come over to them. They assume the clients they took on through moonlighting, through anticipated references from friends and associates, and through their previous employment will follow them to their new practice. This can be a really bad assumption. People don't take switching accountants lightly. From the clients' perspective, if they are fairly happy with the service they have been getting, switching is quite inconvenient. It requires their time. Clients often don't switch accountants as hoped or expected for a number of reasons, including the following:

- Clients established on a moonlighting basis may not want to use you in your own practice because of perceived or real fee increases. (One more reason to never sell your services for below-market rates.)



## On Your Own!

- Friends and associates, as well as referrals from these contacts, may choose not to use you because they do not want share their personal information with you. After all, accountants are privy to some of the most sensitive information that people have, including level of income, past business dealings, lawsuits, and tax history.
- Former clients at your previous employment who might want to use you may feel it is prudent to wait until you are established. They may also have more loyalty to your employer than you might realize, and switching is a hassle.
- Finally, some employment or noncompete agreements require the purchase of clients leaving with a departing CPA.

Having a mentor or two to provide a sounding board is also a very big help. Your banker, other CPAs, and seasoned business people love to help ambitious people looking for guidance.

## ***Partner Mismatch***

A mismatch with a partner or other business associate is the second stumbling block that will severely hurt your business. Because working with others requires effective communication and the ability to compromise, it is imperative to really know your potential associates. In large practices, clashing individuals can work around each other, but such polarization cannot be tolerated in small firms. Be sure you understand the personality and background of your associates and establish well-defined boundaries for working with each other.

## ***Practice Acquisition***

Just as one can make a poor choice in a business associate, one can err in a practice acquisition. A poorly chosen acquisition, combined with a poorly executed transition, can turn into a nightmare. Most acquisitions that fail are the result of a mismatch of technical skill, management style, and personality. Losses also are incurred by not planning and executing the transition well. To counteract the possibility of this happening, you need to evaluate carefully any potential acquisition and weigh the pros and cons objectively. (See chapter 6, “To Buy or Not to Buy?” for an extended discussion on buying a practice.)

## **Questions**

1. Who are potential mentors that can help guide me?
2. Why would clients want to use me?



3. What role will my spouse or partner play in the practice, if any?
4. Who will be my closest competitors?
5. What is my biggest stumbling block?
6. Who is likely to be my anchor client?
7. How well do my business goals mesh with my other life priorities, such as family, community, and personal interests?