

FORMING A STRATEGIC PRACTICE ALLIANCE

By William R. Pirolli, CPA.



Working in collaboration with other firms is nothing new. The previous chapter discussed how the use of joint engagements for a single undertaking could benefit multiple firms. These joint engagements allow firms to pool their labor and knowledge to engage in a single project that individually would be infeasible. This arrangement is usually short term and limited to the job at hand. In this chapter we will focus on the development of long term Strategic Alliances.

What is Strategic Practice Alliance?

A Strategic Practice Alliance can be described as *the cooperative efforts of unrelated firms working together to provide a wide range of products and services to a diverse client base.*

Strategic Alliances should not be confused with Accounting Associations. Associations operate primarily for larger regional firms allowing members to extend their reach beyond their own back yard. Firms in these associations will typically share ideas and resources on issues of practice management and may work in joint venture on specific engagements. They provide members with a strong support system and a way to compete with national firms. They are peer to peer groups, usually requiring minimum size and service requirements for entry, with members strategically recruited in various geographic regions.

Think of an Alliance as the opposite of an Accounting Association. Alliances focus on firms of all sizes working together in the same geographic location. An allied firm would look completely different from your firm, providing products, services, and expertise that your firm lacks. A Strategic Practice Alliance is a long term relationship meant to bring firms together that has different focuses, providing a network of general and specialized experience that can quickly react to a wide variety of client needs.

Why Alliances?

If we look at other professions, we have been slow to adopt this concept. The legal profession has successfully used associations of independent attorneys operating under a single roof for years. This has allowed smaller firms the ability to provide a wide range of specialized services to compete with larger firms.

In the health care profession, health maintenance organizations revolve around the concept of a “primary care physician”, a doctor who is responsible for your health on a day to day basis, and is there to identify problems and recommend specialized procedures when needed. Those procedures are then performed by outside specialists within the “network”.

As our profession leans further away from traditional attest and compliance functions and more towards specialized services, our clients will still need the services of a “primary care accountant”. This “general practitioner” will be a gatekeeper for the services of outside professionals, some of whom will be fellow CPA’s practicing in these specialized areas.

Road Map to Success: How to get started

UNDERSTANDING YOUR FIRM

The first step in establishing a strategic alliance is to develop a solid understanding of your firm statistics and your client demographics. Consider some of the following basic items:

- What are your gross billing rates by classification?
- What is your average firm wide billing rate?
- How many personal, corporate and other entity returns are prepared annually?
- What percentage of your gross fees does each represent?
- Do I have any specialties or service concentrations?
- Which clients or services represent more than 10% of my total fees?
- What industries represent a concentration of fees in my firm?

Basic demographic information is essential to any long-term plan for establishing a Strategic Alliance. Always be prepared when discussing your firm, especially with a larger firm. *They know their statistics and will ask you yours.*

Once you have compiled your demographic information the first thing you need to do is compare yourself to the rest of the world. The Map survey done by the Texas Society of CPA's is a great place to start. It is reproduced in the MAP handbook and will allow you to compare your statistics to other practitioners of the same size and geographic region. It would also be advantageous to also begin to assemble some of the myriad of other statistics they track.

SELF-EXAMINATION – GOALS AND OBJECTIVES

Now that you have become acquainted with the statistical side of your firm, the time for self-examination is here. You will need to perform a **SWOT** analysis of your firm. Strengths, Weaknesses, Opportunities, Threats. Ask each member of your professional team, partners and staff, to answer the following:

- Who am I?
- What do I want to be?
- What do I do best? What do I do worst?
- What do I want to do more of?
- What do I want to stop doing?
- What do I want to start doing that I am not doing now?
- Is our firm positioned for the future?
- Are we looking through the windshield or into the rearview mirror?
- Do I have a transition plan for my firm and myself?
- Who are my clients?
- Am I giving my clients the services they need?
- Will I lose them if I don't?

The formation of any long-term plan requires buy in from all parties. Involve everyone in the process from partners to secretaries.

Whether you are a sole owner or a partner in a firm it is critical to know where you are going. Only through self-examination can you decide where you are and where you would like to be. How many times have we had these types of conversations with our clients? Be honest with yourself. Write down your short and long term plans. Start a dialog, and make a decision to change.

You are now prepared to begin the process of forming Strategic Alliances to fulfill your goals with a plan in mind. An Alliance without a plan is just a work sharing arrangement that will not benefit *both* parties involved. ***If both parties to an Alliance do not recognize a benefit the Alliance will fail.***

CHOOSING YOUR STRATEGIC PARTNERS

Your choice of strategic partners is critical. How do you begin to seek out firms that you can associate with on a long-term basis? One of the best ways is to ***get involved***. Involvement in your State Society or local Chapter will expose you to a wide range of firms. Typically, firms that are actively involved are forward thinkers who may be open to just such an arrangement. You may already be acquainted with these firms and simply need to start a dialog.

There are many criteria you can impose in determining which firm will provide the best match for you and your clients. Issues such as billing rates, location, experience and range of services are all important. Nothing, however, is more important than the firm's philosophy and culture.

Every practitioner has a personal style that his or her clients are comfortable with. That is why they are ***your*** clients. If you are going to directly or indirectly expose your clients (your largest asset) to another CPA firm then you need to be sure that they will service your client with the same care and temperament as you.

Spend lots of time with the partners and key staff of any firm with whom you choose to form a long-term Alliance. What is their firm philosophy? Are they quality people? Do I trust them to be professional with my clients? Will they respect our firm and work collaboratively? Think of yourself as the end client and screen them as you would any other professional.

Start small. Bring a potential allied firm in on a special project or perhaps just a single tax issue. This will establish a tone for how future engagements will evolve. The best of marriages begin with a courtship.

Types of Strategic Alliances

THE "UPSTREAM" ALLIANCE

An upstream alliance is quite like it sounds, a smaller firm forming an Alliance with a larger firm. It is this type of alliance where there exists the greatest potential for service sharing and long-term gain. A large firm is defined as one with adequate resources to provide a wide range of specialized services, and a small firm as one needing those services. The actual size of the firms is irrelevant. Rather, it is the nature of the services needed that define the relationship. What are specialized services?

- Personal Financial Planning
- Business Valuation
- Investment Advisory Services
- Web Trust & Computer Consulting
- Assurance services

- Certified Audits
- Complex tax planning strategies
- Foreign taxation
- Interstate tax strategies, etc.....

In short, if you are attempting to facilitate an upstream alliance your goal should be to leverage the assets of the larger firm to yours and your client's best advantage. The ideal relationship treats the firms as if they were satellite offices of one another, each having access to the others resources. None of this is accomplished without very well defined objectives and open lines of communication.

The first step is to identify the strengths and services available through your upstream partner. Meet with the senior partner and have them provide you with an overview of their firm's departments and a list of their specialties. Meet with the partner or accountant in charge of the department or services that you foresee implementing for your client base. Make sure they understand your firm and how you can help them.

THE DOWNSTREAM ALLIANCE

In theory, every upstream alliance creates a downstream alliance for the other firm. What you need to envision is your firm being in the middle and seeking to form both an upstream and a downstream alliance. In this situation you are seeking a firm that is perhaps smaller than yours or has some specialized service niche. These types of alliances are very helpful if the job at hand is too small or price sensitive for a larger firm. Keep in mind that this will become an upstream alliance for your downstream firm. You should seek out a firm that is open minded to forming a long-term alliance with your firm.

SPECIALIZED ALLIANCE

These are the same arrangements that CPA's have traditionally used for years. We have always worked with professionals in other fields, estate tax attorneys, investment advisors, insurance specialists, business brokers and bankers to name a few. Today the difference lies in the shift in our profession from the traditional service mix to the specialty service area. CPA's are now delivering disciplines such as business valuation, investment advisory and even insurance. Your choices as a practitioner are to deliver these services yourself or align with someone who does. If you do not see the need to work on a regular basis with another firm you can seek out these specialists to work with you on an as needed bases.

Which of these options is correct for you will depend on your situation. Many firms use all three effectively. The idea is to think and plan differently for your firm. Decide that there are alternative ways of doing business, and get started.

Contract Matters

As with any professional arrangement care should be taken to ensure a clear understanding of the terms, their effects on both firms and especially the client. There are several things to consider before you begin.

WRITTEN AGREEMENTS

There are actually two issues at play here. One is your long term Alliance, and the other is the specific engagements that will develop from that Alliance. You may consider a formal Strategic Alliance agreement, but as the relationship evolves over time, it will be difficult to identify all the possible scenarios. There should, however, be a letter of understanding highlighting the spirit of the agreement. Individual projects on behalf of clients should be more formalized based upon the nature of the service.

NON-COMPETE AGREEMENTS

Larger firms will usually offer a smaller firm a letter assuring they will not compete or try to steal away your client. While this is comforting, it should be already covered as part of the initial letter of understanding. Besides, clients have a mind of their own and are free to change professionals regardless of your agreement. *If you are afraid that the firms in your Alliance will steal your clients, you have picked the wrong firms.*

CLIENT MATTERS

Your clients should always be aware of and approve of any shared services. As the primary accountant you have a duty to protect your client's confidentiality. Communication regarding the Firms involved, the nature of the assignment and billing arrangements should be in writing.

BILLING

Rates and fees should be thoroughly understood. Depending on the particular assignment at hand, billing can be between firms or directly to the client. Billing passed on to the client can be in the form of a line item (pass-through cost) or invisible.

Engagement Structures

SPECIAL PROJECTS/ENGAGEMENTS

In this type of arrangement you have contracted with your Affiliated firm to conduct a particular service directly for your client. This could be business valuation, investment consultation, personal financial plan, cost accounting study, web trust or any other type of freestanding service. In this arrangement, separate engagement letters are issued and typically the Allied firm bills the client directly for the service. It is your firm's job to coordinate the scope of the service and monitor the engagement on behalf of your client.

JOINT VENTURES

In this type of arrangement you are working with your Allied firm by dividing the scope of work into specific pieces. For example, if your firm provides no certified audit work, you could subcontract the audit portion of the engagement to an Allied firm. They would have separate engagement letters with the client and render their own invoices.

“JUST IN TIME” CONSULTING

One of the strongest advantages to a smaller firm in an Alliance is the ability to “rent” rather than “own” expertise needed on a specific basis. “Just in Time” consulting allows you to use the resources of your Allied firm as if they were yours. This arrangement is most applicable for specific tax or accounting questions that arise as part of your regular engagement. Invoicing in these matters is generally directly between the firms. In effect, you become the client. Costs can simply be passed on to the client invisibly. In many cases the Allied firm may have no knowledge of who the client even is.

Long Term Advantages

At this point the short-term benefits of strategic alliances are hopefully clear. They enable you with the ability to provide a wide range of services to your clients without having to hire or acquire the expertise. They are also a source of cross-referrals, which enhance your practice in areas that you choose. For larger firms they can provide a steady source of referrals to specialized professionals already on staff. For all firms, they provide a place to turn when you cannot accommodate a service because it is too small, too big or too specialized.

For smaller firms, and particularly sole practitioners, forming Strategic Alliances are a way to plan for practice continuation should the need arise. In a death or disability situation you would want to secure the most value from your assets by planning for an orderly transition. If you are nearing retirement, a Strategic Alliance can provide a period of courtship prior to a sale. If you are looking to grow your firm through acquisition or consolidation, Alliances may be the first step.

For all firms Alliances are a way to leverage your existing client base, expand through controlled growth, and never have to say “no”. Your firm can grow in size, quality and profitability while at the same time staying focused on what you do best.

Of course everyone’s objective is different. Alliances are simply another path to marketing, management and profitability for your firm.

Other Forms of Alliances

OFFICE SHARING ARRANGEMENTS

Attorneys and physicians have worked successfully in these types of arrangements for years. Our profession is just beginning to see the benefits. One reason for the shift is the move to specialization within the profession. It is now possible to form a group of independent CPA’s who work in different disciplines under one roof. Even CPA’s with similar practices and clients can share space, operating costs and possibly services.

For the most part, these arrangements are no different than other tenant relationships with the exception that you may actually share the same physical space. Issues to be addressed include access to files, client confidentiality and non-competition. Also, common supplies and reimbursement for staff time may be applicable. A formal lease arrangement can be used or a simple letter of understanding.

PRACTICE GROUPS

Perhaps the simplest ways to get started with strategic alliances is to participate in a practice group. Practice groups are nothing more than individual firms of similar size meeting on a regular basis to share ideas and discuss timely tax, management and business topics. For practice groups to succeed there needs to be a strong commitment, a regularly scheduled meeting time, an agenda and open communication.

SUMMARY

As your clients grow in sophistication and demand new and different services, you will be faced with the challenge to respond to these needs. How can firms with limited resources face this challenge? In order to thrive, you must be willing to change. You must seek out new services and find a way to provide them to your clients before someone else does.

With change comes tremendous opportunity to those willing to think differently. Forming Strategic Alliances will force you to think differently about yourself, your practice and your future.

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