

February 2009

Hello all,

I thought I would start the new year by touching base with my consulting clients and sharing some of the opportunities and challenges I see both nationally and right at home in our own firm. Of course, I seem to have lost the entire month of January... again.

In January and early February, I spent most of my time servicing my most important client ... our Firm. We are busy closing out our billing for the year, analyzing production, looking at our receivables and in general assessing how we ended up in comparison to our goals. It is also budget time. We are being very proactive in our planning in these most difficult economic times.

I hope all of you are also investing in your firm's future by taking time to examine your firm's position and implementing a solid plan for the coming year and beyond. Here are some thoughts to ponder.

GROWTH

It has been a great ride for our profession over the last 10 years. In spite of staff shortages, standards overload and accounting failures that rocked our profession and the public's trust, we have all thrived.

While we still see that our business model is solid, you can't help but be guarded about the near future. It is harder to find good clients willing to pay for services in this economy, and some that we already have may be challenged to simply survive. We feel this year will be modestly up or flat, and we will consider that a positive outcome.

Like many firms, about 60 percent (our best guess) of our work is compliance based and the other 40 percent just happens. It is in this area that we see a slowdown already in process. Mergers, acquisitions, capital investment and other major projects seem to be on the shelf as many businesses struggle to survive. In addition, we are seeing significant pressure on fees. Like us, our clients are looking at their costs and trying to find ways to cut expenses.

This is a perfect time to review your 80/20 list (80% of your revenues come from 20% of your clients) and be sure those accounts are rock solid. We have been having discussions about the scope of services needed and engaging the client's staff to do more as a way to mitigate fees. If you are merger minded, I see lots of activity in that area. Firms of all sizes are joining forces to expand services, geography and capitalize on opportunities. As the economy continues to challenge us all, there will be more opportunity in this area as many firms wrestle with technology and succession issues.

CASH FLOW

We already see the effects of the economic slowdown on our cash flow. Overdue account balances are on the rise, causing us to evaluate some relationships and enter into conversations with clients regarding payment terms and possible delays in service.

This is the perfect time to evaluate your policies and procedures to ensure that you collect your receivables and not add time where it cannot be paid. It is also the time to get back to basics. Timely billing, solid collection policies and constant client communication are necessary. Unfortunately, some clients need us the most when they can least afford us. We will all be making some tough decisions in the upcoming year. A collection technique that has worked very well for us over the years is to go on our client's payroll. Have them set you up as a weekly independent contractor with their payroll service. A small weekly payment adds up quickly, can be directly deposited into your account and is easier on the client. Many of our clients who we have put on this plan never get off it once their account is paid and many now carry negative receivable balances.

(Over)

STAFFING

Here we see the pendulum is swinging back to the firm's advantage. In the last year, we are seeing more qualified candidates at our door, and for the first time in many years, we feel we have choices. Five years ago our firm entered into a long-term plan to create a firm with a solid learning culture where people can build their career and we could grow our own experienced talent. Today, we have a very solid group of seniors and managers and a full complement of junior staff. It was hard work and costly, but it has put us in a very positive staffing position.

We are watching our staff utilization carefully and stand ready to act quickly if the economy does not improve. As of now, we have not cut any hours or had any lay-offs and have no plans to do so through busy season. An unexpected benefit has been the availability of people looking for part-time work to supplement their income who have been in short supply over the past several years. This temporary staff is the perfect answer to deal with our seasonality issue. Don't forget to look beyond accounting graduates. With layoffs in banking and real estate, there are lots of smart trainable people looking for work.

Come spring, we will be reviewing our total compensation and benefits package to see if there are areas that can be trimmed. On the table will be issues such as payment of professional dues and education reimbursement policies. We realize that some of these changes may affect the culture of our firm, the reason we are in the strong position we currently are, so we will trim carefully and only if necessary. We will be cautious not to make short-term cuts that will cost us in the long term.

BANKING ISSUES

We are seeing very aggressive banking reaction to the current economic conditions. Banks in our area are asking clients to keep them apprised of their current financial position and where their financials will come out. They are asking for no surprises. We also see an increase in the request for projections, an opportunity for us to provide service. Requests for waiver of covenants may come with fees attached, and loans will be sent to workout quicker than usual. Don't forget dating covenants. We are being told by our banking friends to have everything done timely as late information will be viewed as a default that may also come with a waiver fee. In short, any excuse will be used to inflict pain.

We are also seeing new lending trends like unused credit fees on lines of credit. Larger lending institutions are being forced to reserve on unused credit and are passing those costs on to customers. This is likely to trickle down to personal credit arrangements like equity lines and unused credit cards as the Fed tries to limit future losses.

We urge you to use this market as an opportunity to show your value. Don't devalue your financial statement services. Instead, educate your clients as to how important your role is in the process. We have been very successful in casting financial statements as a cost of capital, required by the lender. As regulations and independence standards tighten and the banking industry comes under severe pressure, the cost of that capital increases in the form of our fees.

OPPORTUNITIES

Like most times of risk and danger, there is also great opportunity. Our money management and financial planning divisions are very busy. Many who thought they could manage their assets alone are now seeking help. This is turning into financial planning engagements with opportunities in life, disability and long-term care insurance as well as asset management.

With the value of everything down and interest rates so low, we are seeing lots of activity in estate planning and gifting plans. This is a great opportunity if you are in the business valuation sector to move family interests. Be sure to touch base with your estate planning attorneys and your wealthier clients to discuss these and other opportunities.

We hope you find this update informative. We will send others as we see items of interest. As usual, we suggest you check into the PCPS web site for some great new resources. We are updating the site constantly and recently opened the new succession planning resource center and added to our already popular human capital resources.

Lastly, we have attached a discount coupon for this year's Practitioner's Symposium. Again this year, I have a few speaking assignments and would love to see you there. As always, feel free to call me if you need me. Happy filing season!!!

Bill

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