



# DOWNTRODDEN

The recession has triggered a survival strategy for most firms – but it could set others on a stronger footing ahead, write **Phil Shohet** and **Andrew Jenner**

**T**he impact of the credit crunch and the downturn in the economy from the buoyancy of 2007 to the recessionary outlook for 2009 is set to have a dramatic effect on the profession. It is in light of this that Kato Consultancy's 2009 survey of the profession concentrated on the areas where firms feel that they are most vulnerable, and the strategies that they are putting in place to help them to counter the challenges of the next 12 to 24 months.

In the latest annual survey carried out among the managing partners of more than 200 accountancy practices during November and December 2008, we canvassed the opinions of firms on their plans for surviving the difficult economic times ahead - and there was no shortage of managing partners willing to discuss their concerns.

Those polled included independent practices of all sizes as well as a number of sole practitioners. Although there were several issues that cropped up in almost every case, our analysis of the results produced some very startling facts, some of which could well

scupper the best-laid plans.

One of the most surprising results is that more than 80% of the firms taking part have been developing strategies to cope with the economic downturn without consultation or discussion with their staff. Despite the fact that increases in speed and efficiency of work feature strongly in the majority of these strategies, the staff who will bear the brunt of the work required for implementation have not been consulted.

This, combined with the freeze on recruitment that is also forecast, means that the real responsibility for surviving the tough times ahead lies with people who may not be willing or able to shoulder the burden.

Effective communication at all levels in a business is one of the key elements for success, and never more so than in difficult economic conditions.

However, with improvements in the speed and efficiency of work processing at the top of agenda for many firms, it would seem they are expecting their staff to work harder and smarter (and almost certainly for no extra money) without ascertaining in advance that they are both willing and able to do so. Having

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said that, it is therefore not surprising that a similar number of firms (80%) are not confident that staff are capable of reaching the performance targets these new strategies demand.

When asked how their firm is being affected by the credit crunch, the responses show that over 60% have experienced a reduction in turnover growth in the last year – along with a reduction in profit per equity partner. More than half have responded by reducing employee numbers with a freeze in recruitment or redundancies and 25% believe that the recruitment and retention of good staff will be of great concern over the next 12 months.

The reduction in growth and profitability is likely to be exacerbated by anticipated client losses in the coming months. When we asked practices to consider how many clients are at risk, either from business failure or seeking an alternative firm, an average of only 5% of clients throughout our sample were judged to be at risk from the former, while the possible loss of clients to competitors was seen to be a greater threat with up to 10% of clients thought to be vulnerable. The three principal reasons given why firms believe clients may seek an alternative professional adviser are:

- Price (the size of the fee)
- Insufficient breadth of services within the firm
- The firm is perceived as reactive rather than offering proactive advice

It should perhaps be noted that our survey was conducted during November and December 2008, since when the economic predictions have become increasingly gloomy. A consideration of the same question just a few months on may well produce a more pessimistic result.

The potential loss of business is perceived as a barrier to growth, but there are also internal issues.

Clearly partners do not necessarily agree on the direction to take in present circumstances which, along with poor leadership, was identified as a primary issue. Accountancy practices are no exception that all businesses require strong and focused leadership.

This may be reflected in the fact that within the independent sector of the profession, partners are owners and managers and it is very common to find a reluctance to separate one from the other. This is why a strong and decisive managing partner is vital and why all the partners must give him or her a mandate to manage and follow a strong business line.

### Internal fix

There is no doubt that firms are well aware of the areas they need to address in order to improve business performance and seize opportunities for development.

Operational issues such as speedier turnaround of work, faster billing and attention to lock-up are areas where there has always been slippage in firms. Available benchmarking figures reveal this year on year.

Organising the 'factory floor' is one thing, but the fact that 70% of the firms recognise that they should be marketing to attract quality work rather than volume

of work is very significant. Partners who are the better networkers and hunters should, in theory, be spending more time on this essential area. But it is a slow burn and the survey response does not indicate whether firms have yet addressed the issue.

Most firms acknowledge the need for quality rather than quantity when attracting new business, but our experience shows that all too often they will accept any client regardless of the likely level of profit generated. Likewise, although they see the need to spend more on generating new business, the marketing budget is often the first to be slashed when economies need to be made. Yet a major lesson from the recession of the early 1990s was that the law of diminishing returns applies when the emphasis is to cut areas such as marketing and training – the very things that need real focus to maintain the flow of new business and maintain and improve the delivery of the service!

A similar gap between perception and action was clear when we asked firms what they considered to be the key factors in improving staff and partner performance. Leadership and communication, in reality two of the worst performing areas, were viewed as most important.

### More M&A activity ahead

One thing that we can predict with some certainty is that the merger and acquisition market will become even more active in the coming months.

A significant number of firms in the survey identified a strategic merger as one of their main strategies for achieving business growth in the next two years.

For some it will probably be more of a survival strategy, while those whose business management and development skills have enabled them to prosper in recent years are poised to take advantage of the predicament in which their less able competitors now find themselves.

Many partners, having deferred a decision in previous years, have had their thinking crystallised by the downturn and are now examining their exit routes. The coming months will not be easy and ensuring a favourable merger or sale is achieved will require some serious effort.

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## Which areas in your firm require improvement or are poorly dealt with?

Speed of turnaround of work	55%
Speed of billing	25%
Marketing spend	52%
Marketing to attract quality rather than volume of work	71%
Recoverability (fee as a percentage of chargeable time)	49%
Work-in-progress days	40%
Debtor days	55%
Profit per partner	35%
Support staff costs	30%
Dealing with underperformers (partners/directors)	65%