the General JOURNAL

Editorial

What an incredible few months! COVID-19 has turned the world on its head and you've been in the trenches helping your clients decipher and administer JobKeeper that has turned into War and Peace. We have seen some of these temporary changes become permanent.

In a sense, we have had a glimpse of **The Firm of the Future** and in this newsletter we look at the changes including staff working remotely, the replacement of face to face meetings with virtual meetings and the question mark on the need for large offices going forward. One thing we know, the 'practice of the future' is going to look very different and we just got a clear snapshot of what lies ahead.

Practice Sales - Accountants expect that some of their business clients won't make it to the other side of this crisis. As you'll read in this newsletter, surveys suggest that most accountants anticipate a decline in their fees as a consequence of the pandemic.

Buying & Selling Fees

Accountants have been under enormous pressure and there are signs of burn out which usually leads to sell out, however, a lot of baby boomer practitioners approaching retirement have taken a massive hit on their superannuation accounts. These practitioners might defer their sale and further frustrate the long queue of buyers. No doubt, some practitioners will bring forward their sale plans as a result of recent events.

Enjoy the read and if you're looking to buy, sell or merge we invite you **contact us** today.

THE PRACTICE OF THE FUTURE JUST ARRIVED

I have been connected to the accounting profession for many years as a sole practitioner, consultant and public speaker. I have also lived through a number of recessions and every financial crisis seems to leave a permanent mark on the profession. COVID-19 is certainly no exception.

The practice of the future arrived in a hurry. Almost overnight, a high percentage of staff were working remotely and face to face client meetings were replaced by 'virtual' Zoom meetings. Some of these temporary measures might become the new norm which means the need for traditional office space with a large reception area, meeting rooms, offices and work stations is under review.

It's been a whirlwind of change in a pressure cooker environment and it's not over yet, far from it. One thing we know, the 'practice of the future' is going to look very different and we just got a clear snapshot of what lies ahead.

P.J. CAMM & ASSOCIATES
Helping Accountants Succeed

Marketing for Accountants

Promote Remote

The question of having staff work remotely has been an issue for some time in the profession. For firms who have been sitting on the fence weighing up the pro's and con's, the decision was made for them in March 2020. There was no option. For the firms who had been moving in that direction for the past few years, the transition was almost seamless. Either way, this is a game changer for the profession.

As you know, it's a tough industry and work-life balance remains a major challenge. On the plus side, working from home eliminates the commute time that potentially frees up an hour or two every day that could translate into more sleep, exercise or recreational time. That could lead to improved productivity, mental health and firm loyalty.

On face value, it's a win-win situation, however, there was always going to be teething problems given some staff moved from their state of the art office (furnished with 3 monitors and a top of the range printer/scanner) to a home office working on a kitchen table with a laptop and a domestic all-in-one printer/scanner. Everyone's situation is different and during the lockdown some staff had children in the house so the impact on productivity may not be known for some time. As people get used to the environment, you would expect better results.

The success of the remote working 'experiment' could be the start of another industrial revolution. Finding and retaining good staff remains a major challenge in the profession so offering a flexible work environment could provide firms with a recruiting edge. Having said that, how will you interview, recruit and induct new staff in this environment? The consensus seems to be, some staff will split their time between home and the office. Firms might down size their offices which will have a positive impact on commercial rents and overheads, however, it will require more investment in IT and cyber-security with staff working from home. Hot-desking could be a thing of the past. Working remotely was a perk in 2019 but in 2020 it could be the new 'normal'.

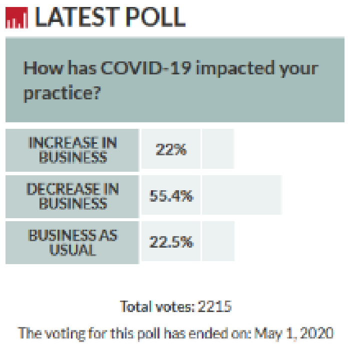
The pandemic has impacted every industry and some have had big wins like manufacturers of cleaning products, IT suppliers and streaming services. Others have been big losers like airlines, travel agents, hotels and gyms. What about the accounting profession?

Back in March I forecast that COVID-19 presented accountants with a once in a decade marketing opportunity. The proactive firms got on the front foot and developed a client 'survival game plan' and shared it with their clients by email together with a stream of newsletters and JobKeeper update bulletins. It cut a lot of client mayday calls off at the pass and their fees will increase this year. They will also get plenty of referrals from appreciative clients.

On the other hand, the reactive firms sat back and got buried in distress calls and emails from their clients. These firms didn't give their clients a road map through the crisis so their 'energy vampire' clients kept calling for help. These clients probably wanted the advice for next to nothing and it has taken its toll on practitioners. It has left many accountants physically and mentally drained plus they have very little to show for their massive efforts.

Growing, Slowing or Going?

Incredibly, I saw this poll from Accountants Daily that suggests 55.4% of firms in Australia have had a decrease in business as a result of COVID-19. It makes no sense given accountants been on the frontline and in the trenches with their clients working long hours and late nights. I've heard a lot of accountants say they couldn't charge clients the full amount because they were just helping them survive. In my opinion, write offs are reserved for inefficiencies not advice that could make or break a business.



The Government response to COVID-19 has been outstanding, however, I think they underestimated the role accountants would play. Thinking back to the introduction of GST in 2000, every business received a $200 voucher that was redeemable for software or GST advice. Fast forward 20 years and the Government should have issued businesses with a voucher that was redeemable for help to explain and administer the government's stimulus packages.

Let's be honest, JobKeeper is the Accountant's version of 'War & Peace' and accountants shouldered a big part of the administrative burden. Unfortunately, not every firm will emerge as a winner as a number of accountants made the decision to discount their fees to help their distressed clients with some firms even doing the work pro bono.

When you sell your practice you are selling your 'future maintainable fees'. Helping clients produce cash flow forecasts and applying for JobKeeper and the other grants will not produce recurring fees. As such, this spike in fees might help your bottom line but they won't increase the value of your practice. On a positive note, accountants who have run 'compliance sweatshops' for years managed to jump back into advisory roles to decipher JobKeeper and the stimulus packages. They repositioned their firms and their big challenge is, do they continue on this advisory path or do they slide back into the comfort of compliance? We all know what route is more fun and profitable.

Impact on Buyers and Vendors

1. Will your future maintainable fees drop?
2. Will you lose clients?
3. What is the impact on the value of your firm?

These are three big questions and you probably won't know the extent of the client losses until after JobKeeper finishes and the six-month moratorium on tenancy evictions ends. One thing is for sure, re-opening the doors of a business won't guarantee survival. It will take time to rebuild the economy and consumer confidence. The economy effectively came down 35 floors in a lift out of control and it will need to be rebuilt via the staircase, step by step. The economists say it could years and it certainly won't be business as usual when all the restrictions are lifted. You may not know the full extent of your client losses until 2021.

The market has been starved of practices for sale for a number of years. In fact, we have more than 200 registered buyers and only a handful of vendors. What impact will COVID-19 have on the market? With most practitioners burning the midnight oil for the past few months to help their clients you would expect some burn out. With burn out comes sell out so we might see some more listings this EOFY or certainly next year. However, the baby boomer generation are resilient and there are other factors at play. The pandemic took a big bite out of the stock market and a lot of ageing practitioners have had their superannuation slaughtered. They might work on and try and extract more profit from their practice to fill the financial hole. The issue for them is their ageing client base and deferring the sale might impact on the value of their fees.

Buyers are nervous and some firms will lose fees as the poll above suggests. Firms that specialise in industries like restaurants, travel agents and hotels are particularly a worry. May and June are typically the busy season for practice sales but the buyers have understandably retreated for the moment.

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What's Your Accounting Firm Worth?

Accountants all want to know, what's their firm really worth? There's no short answer to that question because every firm is different and the value of your practice will depend on a number of factors that we will examine in this article.

The good news is, if you are contemplating selling, it's a vendor's market. In Melbourne alone there are several hundred firms looking to acquire fees ranging from $150k to $5M in fees. Demand is at peak levels but supply is scarce as the baby boomer principals and partners 'dig in' and work well beyond the conventional retirement age. It is a very difficult market for these hungry and frustrated buyers.

Before we launch into all the factors that influence the value of an accounting practice let's calculate the actual level of fees you are selling. In essence, you are selling your 'future maintainable fees' from your client list. To arrive at this critical figure, let's assume you invoiced $700k in the 2020 financial year and you now need to estimate your 2020/21 'future maintainable fees'.
Last year's fees are a great starting point but you need to subtract fees for:

- clients for whom you did work for in 2020 but have left the firm or died. You can add the casualties of COVID-19 to this list.
- clients whose circumstances have changed (i.e. they may have sold their business or retired so their fees will drop).
- disbursements like shelf company purchases or SMSF set ups because these are not recurring annual fees.
- one-off consulting assignments because they are not 'maintainable' (JobKeeper Advice)
- multi-year returns you completed last year and the maintainable fee is only one years fee.

Your $700k in fees might now be only $630k of future maintainable fees. You can then add fees for these items:

- new clients who are on your lodgement programme and you can estimate their fees for next year.
- clients who are expanding – they may have bought a new business, set up another branch office or have a new SMSF in their structure.
- a small inflation factor added to last year's fee base.

Your 'future maintainable fees' might now end up at $670k for 2020/21.

I'm specifically focused on valuations for smaller firms with fees of less than $1M and generally speaking, these firms are valued on a 'cents in the dollar' basis. For larger firms with fees in excess of the $1M mark, the valuation method could shift towards a multiple of EBIT (Earnings Before Interest and Tax) after allowing a notional salary for the Principal or Partners.

Let's now explore some of the factors that determine the value of an accounting firm.

1. **Fee Size** - Let me say right up front, the size of the fees for sale will impact on the number of potential buyers. The sweet spot for most buyers is around the $500k mark and if you are a vendor in the south-eastern suburbs of Melbourne looking to sell around $500k of fees you would have a queue of buyers on your doorstep. If you were selling $1M in fees, the queue would be substantially shorter. At the $2M level you would only have a handful of buyers. The economics of supply and demand apply and a larger pool of buyers equates to higher prices. This generally means suburban firms get higher prices compared to regional areas.

2. **Breakdown of Fees** - The split of fees between individuals, businesses and super funds also has a big bearing on price. Individual returns are not flavour of the month (or decade) and if your firm was simply an 'I Return Factory' in the mould of a H & R Block branch or ITP franchise then the valuation would probably be about half of a more traditional accounting firm that predominantly services business clients with a sprinkling of individual returns. The demand for these I Return practices is very low.

3. **Location** also influences prices. The demand for fees is very strong in the eastern states and particularly in the inner metropolitan areas. It falls away as you push towards the outer suburbs and there is simply not the same level of demand for accounting fees in regional towns. Again, economics 101 applies with the supply and demand equation. Having said that, nearly every accounting practice can be sold in this market.

3. **Client Base -** Fundamentally, buyers are buying a list of clients on your lodgement programme. If you have an over reliance on two or three large clients then that poses a major risk for investors. Will these clients transition to the new owner? Will they see this change of ownership as an opportunity to change accountants?

If the buyer loses these clients in the handover the value of their investment diminishes overnight.

The contract of sale will probably include a retention clause (e.g. 10% of price) to protect the buyer so if the fees don't reach the guaranteed 'future maintainable fee' level, you won't receive the full retention amount 12 or 24 months after settlement. Buyers obviously want to minimise the risk so a price reduction or a higher retention amount could apply to this group of larger clients

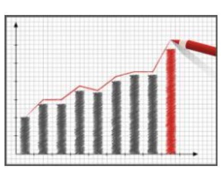
The age of your client base is also a very important aspect of the valuation. Buyers will focus their due diligence on your top twenty or thirty fee paying clients and if a high percentage of them are aged over 55 then there will be concerns that the practice could evaporate in the next few years. Remember, they are buying future maintainable fees and clients moving into the twilight or pension years simply don't attract the same value. You'll also find ageing clients don't refer new business like their 30 year-old counterparts. They aren't buying investment properties or starting businesses and these services have driven growth in smaller firms for decades.

If the majority of your top 30 clients are aged over 50 then you need to start planning your exit strategy now. Look at ways to rejuvenate your ageing client base and it might be time to start looking at digital marketing tactics that focus on attracting younger clients.

4. **Staff** - Selling your practice involves transitioning your client relationships AND your staff. It's natural for staff to build great relationships with clients and your staff can be the glue that binds the sale together.

Buyers generally don't want to 'rock the boat' in the early months after settlement and will want to retain productive staff or at least put them on a three month probation period. They also fear that staff might move on and take some clients with them so expect a grilling from a buyer about your staff before they make an offer to buy the business. They will focus on each employee's loyalty and productivity. Top quality, high performing staff add value to the business.

5. **Growth** - If your fees are flatlining or in freefall, this will obviously impact buyer interest. Declining fees are a symptom and a warning sign of bigger issues. If the practice is leaking clients due to an ageing client base, poor service or below par work, the writing is on the wall and no one wants to buy into a leaky boat or sinking ship. Most firms are buying fees to create growth and a leaky boat is not going to solve their own growth problem.



The declining practice is common and typically the vendor took their foot off the marketing pedal years ago. These firms are characterised by an outdated brand, a website that is just an 'electronic brochure' and they are almost invisible on social media channels. In the digital and social age your marketing could be the difference between boom, doom and gloom.

6. **Profitability** - Buyers are investors looking for a return on their investment and if your profitability is headed south then you have a problem. Technology and automation have decreased the value of many compliance based services, while the cost of running a firm continues to rise.

Buyers will benchmark your firm against theirs and others they are considering buying. If the numbers don't stack up they will want a discounted price or walk away. For example, if you are only generating $100k of fees per full time employee and they are doing $150k per full time employee then your fees could be too 'cheap' or the firm is unproductive. It makes sense, if a buyer is evaluating two practices with similar fees, the more profitable firm will win out in 99% of cases.

7. **Technology** has changed the accounting profession and as a bare minimum, buyers will expect your firm to be virtually paperless with all records kept electronically. Better still, they gravitate to firms who have moved their clients bookkeeping into the cloud.

If your offices are furnished with dual screens and modern hardware then you get a big tick because buyers don't want to inherit archive boxes of files and dozens of filing cabinets. They waste space and archaic filing systems are inefficient. The storage requirements add to the cost of rent and drag down the firm's profitability.

On the point of technology, software systems can also help get a sale over the line. If you use the same general ledger and SMSF software as the buyer this can create time savings when transitioning client files. It won't devalue your practice but it will make you more attractive to a buyer.

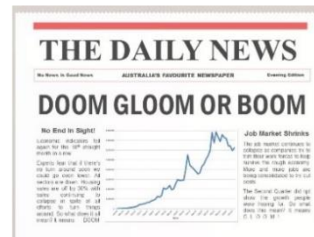
There are other factors at play when valuing an accounting practice but the important thing to remember is, start preparing early. If you're contemplating selling your accounting fees in the next few years, now is the time to address all seven of the valuation factors described above. Of course, if you need any assistance please don't hesitate to contact us.

WANT TO GROW YOUR FIRM

Having specialised in marketing for accounting firms for many years, there's never been a more important time for accountants to ramp up their marketing activities. The full effect of COVID-19 on your client base won't be known for some time but there's no doubt, there will be casualties.

Some firms will obviously lose more clients than others but some firms will lose high end clients and others might simply lose smaller clients. Firms who specialise in troubled industries like travel agents, event management, the arts and hotels might experience significant losses. The obvious question is - How do you plan to replace those clients?

No doubt, some firms will try and buy fees but as you've already read in this newsletter, we have several hundred registered buyers and only a handful of vendors. It's hard to buy fees in such a competitive market. Other firms will ramp up their marketing and in my opinion, your marketing could be the difference between Doom, Gloom and Boom in 2020/21.



During the coronavirus lockdown period Australia's National Broadband Network (NBN) saw a daytime usage increase of 70-80%, compared to previous months. People were chained to their phones, iPads and laptops so screen time went through the roof. Some say it's an addiction, however, it highlights the shift in consumer behaviour and the need for firms to work on their online presence.

It starts with a website and over the past few years some members of the Accountant's Accelerator Group have enjoyed phenomenal growth. Their websites have one clear objective – generate new clients. Most importantly, these aren't just any type of client, these are your ideal type of client because we fine tune the content to your industry niches, specialist services and geographic location. It doesn't matter if you're looking to attract plumbers, pharmacists or pizza shops as clients, we craft the content to position you as the industry expert. As you would expect, the website contains lead magnets, calls to action, opt-in boxes and videos.

Post pandemic, I expect a lot of clients to change accountants from reactive firms to proactive firms. The pandemic has reinforced what we already knew, business owners want an accountant who does more than just keep the score.

The Accountant's Accelerator Group is for proactive and ambitious accountants who want to spend their time HELPING clients, not FINDING clients. The focus is all online marketing tactics including - Google searches, content marketing, email marketing and social media. Most importantly, it works and members are getting a constant flow of enquiries, leads and new clients. Some firms are generating 6 figure returns year after year.

For the first time in several years we are opening up membership and have 2 spots available for the 2020/21 intake. If you visit [this page] you can read all about the membership benefits and download the expression of interest/application form. If you want to know how this programme can impact on your growth, you can read the following member case studies.

Case Study 1, Case Study 2, Case Study 3

NEED A CLIENT NEWSLETTER?

The pandemic has highlighted the importance of regularly communicating with your clients. Newsletters are absolutely essential but the content is critical. Your clients don't want an off the shelf newsletter full of technical tax content. They want to know how to grow their business, their profits and their wealth. They want ideas on how to manage their cash flow and tips on tax planning. They don't want do a Masters of Taxation by correspondence!

Your newsletter should alert clients to your full range of accounting, tax, financial and advisory services. Your newsletter won't directly lead to an engagement or 'sale' but they often pave the way. They help you keep in touch with clients, referral sources and can even introduce your firm to new prospects.

Newsletters are really Marketing 101 and help you prove your expertise and cross-sell and up-sell your services. The quarterly 'On the Money' newsletter we produce for accounting firms is branded with your firm logo and it passively asks for referrals at the foot of each edition. It is available in a format that allows you to:

1. Email the newsletter to your client base
2. Print the newsletter and mail it to your clients
3. Post the PDF of the newsletter on your firm website

The cost is $440 per annum for the 4 copies and if you would like to see a sample copy email us at: admin@pjcamm.com.au

Want to Generate More Revenue in Your Practice?

We've all had a client buy an investment property in the wrong location that turns their fairytale into a financial nightmare. You've probably also had clients re-finance or take out a 'split' loan that might jeopardise the tax deductibility of interest on the loan. No doubt, you've had clients finance cars and equipment but they've taken out a lease instead of using a chattel mortgage (or vice-versa) that has impacted on the potential tax benefits.

Over the past 25 years David Jakimiuk of Creditlink Australia has seen it all. Dave says, "Finance is complex and all too often the client insists on a lease or a chattel mortgage, but it ends up being the wrong option. Once a finance contract is executed it can't be unravelled and clients are bound by the terms and conditions. Unfortunately, the client may not get the tax advantages they expected."

For the past 10 years Creditlink has been working with our network of

accountants to help their clients secure finance for vehicles, trucks, machinery, equipment and technology. Dave says, "We consult with our referring accountants to make sure we are on the same page regarding their preferred finance product. Some accountants simply advise clients to go to their bank for finance and don't get involved in the process. In my opinion, the accountant has a duty of care to advise their clients and a bad tax outcome for the client will reflect poorly on the accounting firm."

Dave and the Creditlink Australia team provide independent finance information to clients and most importantly, the service is perceived to be an extension of your firm's service offering. If you're looking to generate some additional revenue in your practice, Creditlink offer accountants a referral fee based on the value of the asset being financed (refer to the table). For accountants, there are some major benefits of using the referral service.

1.Interest Rates - Put simply, volume drives discounted interest rates. Creditlink's large volume of transactions are driven by a large network of accounting firms across the country who refer their client's finance deals.

2.Panel of Lenders - Creditlink has access to a broad panel of lenders, providing a range of finance products. This is critical because qualifying criteria and rates vary significantly between lenders and some institutions have specialist or preferred areas of interest such as second hand trucks, medical equipment and 'yellow goods' including tractors. Many car dealers, brokers and internet based systems are based on a "one size fits all" model, often tied to a single financier which means your client is probably missing out on a better finance deal.

3. Service – Creditlink liaise with you to make sure the finance is structured in the most tax effective way for your clients. We keep you informed as to the progress of the application and Dave is always available to provide structured quotes and any technical advice to you and your team.

4.Income - Accountants generally get involved in the process by giving advice on the type of finance structure (lease, chattel mortgage etc.) and then provide copies of tax returns and financials. Too often they don't charge their time or receive a fee for this service. Creditlink offer you a referral fee based on the amount being financed. Most firms accept the fee to cover their time but firms can elect to decline the fee and pass the savings back to their client.

Amount Financed	Your Fee (inc GST)
<$20,000 $20,001 - $35,000 $35,001 - $50,000 $50,000 - $70,000 > $70,000	$0 $220 $275 $330 $385 Plus

5.Specialist - Dave is a dedicated vehicle and equipment finance specialist. He doesn't offer home loans or commercial loans and brings 25 years industry experience to the table.

6. Fleet Discounts - You and your clients can access 'fleet discounts' from 24 different vehicle manufacturers on new cars and light commercial vehicles so you and your clients save money on the purchase price as well as the finance. The introduction of the discount car buying service into the service has been an overwhelming success with hundreds of clients taking advantage of the 'fleet discount' pricing.

TESTIMONIALS

"We've been delighted with the service Dave offers. The streamlined process in place means that we have a competitive quote immediately. His excellent understanding of finance products assists us to choose an appropriate finance option for each client. We are notified of all settlements on a timely basis and more importantly our clients are definitely saving money."

Michael Patterson – BBB Accountants

"Our clients get the red-carpet treatment and we know they are saving money. Dave keeps us in the loop so we know clients have the right finance product at the right price."

Linda McGowan – Linda McGowan

To discuss the finance service or get a quote, contact Dave Jakimiuk on 0417 363 720.

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