

**Gordon Gilchrist** analyses ACCA's last inter-firm comparison – which allowed practitioners to measure their practice against other ACCA practices.

# how does your practice measure up?

■ Last June ACCA UK conducted an online inter-firm comparison survey, in which 163 ACCA contact partners participated. In preparation for the next survey, scheduled to take place in September, the ACCA Practitioners' Network Panel invited The 2020 Group, a consultancy that works closely with accountants, to provide a commentary on the results of the last survey. Its findings are outlined below.

(Tip: To view the complete results as you read this commentary visit [http://uk.accaglobal.com/uk/members/support/interfirm\\_survey](http://uk.accaglobal.com/uk/members/support/interfirm_survey))

#### what is your recovery percentage?

Approximately 40% of those responding identified their recovery rates as running at between 76% and 90% and a similar number at between 91% and 110%.

My interpretation of this is that the variation between 76% and 90% is considerable and anybody at less than 76% is probably struggling with their profitability.

In addition, the vast majority of firms that I have worked with do not recover more than 100% on average. I would therefore suggest that those firms that categorise their percentage recoveries between 91% and 110% are, in fact more likely to be those firms that have recoveries between 91% and

96% which, in itself, is an extremely good recovery percentage.

It is pleasing to see that over 50% of the profession is recovering probably more than 85% of their work-in-progress. It's very interesting to note that 2.5% of the firms that responded had recovered over 111% over the course of the year – a staggeringly good performance – must be in corporate finance or something similar!

#### how many clients are there per partner?

This is one of the more important key performance indicators of an accounting firm. It would seem that about 40% of those responded had anywhere between 100 and 250 clients and that there was an equal balance either side with some 20% between 50 and 51 and a similar number between 251 and 500.

This very much depends on the range of services offered and the partners with fewer clients often attract the business advisory/strategic planning type of relationships. Those partners with significant tax clients obviously need a large number of tax clients – probably in excess of 400 to make the business viable.

Therefore it is more important to distinguish the number of clients per partner given the services being offered than it is just to look at the number of clients per partner or by itself.

#### how many full time equivalent professional staff/sub-contractors/associates are there per partner?

The leverage of professional members of staff to partners is normally a great indicator of profitability, assuming the services offered are those of the traditional compliance, audit, accounts and compliance tax return services.

The higher the leverage the more profitable the practice in the situation where the services offered are compliance. However, if the services offered are non-compliance and futuristic in terms of strategic planning, financial services, business advisory and tax planning etc, the leverage would be considerably lower than when you are running a compliance business.

The survey shows that the most common ratio of professional staff to partners is between one and three. This indicates that the balance of respondents are from those firms that offer added value services, against firms with high leverage.

The alternative is a skew towards smaller firms within the survey where the partners are personally offering a full range of services and generally taking responsibility for the vast majority of the relationship with the client – of course this will reduce the leverage considerably.



features

#### fees per partner

This is probably the key performance indicator to establish profitability, irrespective of services offered; although this is not always the case it has a very high correlation to profitability.

The most common range is £25,000 to £100,000 representing some 39% of those responding. It is interesting to see that just over 8% of those responding have fees per partner exceeding £400,000.

Given that the respondents to the survey are skewed to smaller firms – where the partners' involvement is personally high with the clients, and is supported by the results of question 3 above – this key performance indicator is the most correlated to profitability.

#### what is the net profit per partner?

There is a correlation between this question and the two immediately above.

The most common range is between £20,000 and £80,000 which is short of half of the respondents falling within that category.

The average profitability of the accounting profession is slightly above the figures suggested in this survey. An inter-firm comparison conducted through the 2020 membership showed the profitability is considerably higher with over 10% having exceeded £200,000.

Therefore some considerable work can be done to improve the profitability through such items as:

- identifying which services to offer and what the staff/partner ratio should be
- increasing the fees per partner by specifically reshaping the types of services offered and by whom.

#### what are the debtors as a percentage of fees?

With no clear leader (the largest category amongst respondents was 32% ticking the under 10% box) debt collection will always be an issue to the accounting profession. My experience through observation is that one needs to hire some form of credit controller.

The most important aspect of a good credit controller is to pass authority onto this person so that they may deal directly with the clients of the partners and do whatever it takes to ensure that the clients pay. Partners are greatly encouraged to avoid getting involved in this ugly part of the business.

#### what are the hourly charge-out rates for partners?

The most common charge-out rate is between £100 and £150 per hour, which is not surprising. The rule of thumb for the more profitable firms is that where at all possible

partners' charge-out rates should be somewhere in the region of 1.75 times the highest charge-out rate of the non-partner level.

It seems to me that the charge-out rates from those in the survey are on the light side and I would encourage partners to increase their charge-out rates especially if they are to be involved with more added value services.

#### what percentage of fees is limited company audit work?

This (64.4% said it is less than 5%) could surprise those who have not been watching where the profession has been moving. But the survey does suggest that many smaller independent accounting firms are deciding to concentrate their activities on non-audit work and do not see it any longer as being worth their while to retain their audit registration. The arrival of new Ethical Standard 5 must be a major factor in the decision by such firms to move away from audit work.

#### what percentage of fees is non-company audit work?

Again, it's not surprising to see the very high percentage of firms (84%) that really do not carry out non-company audit work to any measurable extent and I think this is helpful in terms of the development of those firms participating.

continued over

## how does your practice measure up? (continued)

### what percentage of fees is accounts preparation work?

The most common answer was between 46% and 65%, representing 40% of the profession and this is entirely within my expectations.

One immediately thinks about the next phase in business development in this area, which of course is outsourcing to India. This is an excellent way of increasing staff leverage and using technology and driving the costs down of producing accounts for clients.

The leverage model and the use of technology for this compliance service is so obvious to increase profitability and this is to be greatly encouraged.

### what percentage of fees is tax compliance work?

The two most common answers are 11%-20% and 21%-35%. The volume of revenues arising from tax business is again very high and almost in keeping with accountancy fees. This suggests strongly that the respondents are small independent firms with many smaller clients and this is a great opportunity going forward for those small firms.

### what percentage of fees is value added?

This is an extremely disappointing statistic with just under 80% of firms reporting that their added value fees was less than 10%.

This is a strong indicator that there is some big change required for the firms as the client base becomes more discerning both on cost for compliance work and the willingness to pay for consultancy in the future.

### what do you expect your growth to be next year?

The responses here I believe are very light. The indication from the clients that I am currently working with, and my expectation on the demand from industry, is that the accounting profession will grow by at least 12%. I believe that the smaller firms are more than capable of exceeding the market as they are more able to move quickly than the larger firms.

### what retirement option are you considering?

There is a mixed bag of responses here – the most obvious one would be the appointment of some sort of successor although we are noticing this is becoming more and more difficult.

I have been running a partner development programme for a number of years to help firms with this particular succession issue and we have noticed that those attending the programme are becoming more and more scarce as the numbers entering the accounting profession become more and more scarce.

Though a significant number of respondents believe they will make an outright sale eventually – my advice is to sell now before the price falls. There is a noticeable trend in the US market that the selling price of sole practitioners and smaller firms is probably at its highest. There is of course a very strong trend that what happens in the States will happen in the UK so it would seem to me that selling now rather than later is a better option.

### in what region is your practice located?

The most dominant area is of course the South East by some considerable margin. This is purely a reflection on the demographics of the country. The growth of firms throughout the north, east and western sides of England, as well as Scotland's central belt, are very much within the same parameters of those firms that are in the South East.

The only issues that are harder for those firms outside the South East are employment and succession – a stronger reason to consider outsourcing to India. ■

Gordon Gilchrist - The 2020 Group

### new survey

The interfirm comparison survey will be repeated in the autumn of 2005. Invites to participate will be issued via e-mail only. To register (or amend) your e-mail address with ACCA visit the *myACCA* facility at <https://portal.accaglobal.com>, or send an e-mail to [patricia.delbridge@uk.accaglobal.com](mailto:patricia.delbridge@uk.accaglobal.com).