2008

National MAP Survey Commentary

AICPA

Where Does Your Firm Stand? Putting the Numbers in the 2008 PCPS/TSCPA National MAP Survey to Work

CPA firms continue to do well, based on an analysis of the results of the 2008 PCPS/TSCPA National MAP Survey. In fact, firms are maintaining the high levels of income and the billing rates that they enjoyed in the previous Survey, conducted in 2006. However, both the 2008 Survey findings and the state of the economy raise questions about the future economic landscape that CPA firms will be facing.

The 2008 PCPS/TSCPA National MAP Survey answers a long list of crucial practice management questions: How much do other firms charge their clients? How much do people at different levels earn in other practices? Which services are most in demand? What percentage of their expenses is devoted to salaries, marketing or training? The Survey is a unique tool designed to offer practitioners unparalleled insights into how well smaller firms are doing and how they run their businesses. It is both a benchmarking tool and market research for smaller CPA firms.

Assessing the Future

In reviewing this year's Survey results, it's clear that CPA firms overall are thriving. CPAs continue to self-report strong growth rates, carrying forward a trend first seen in the 2006 Survey. This was true among firms of all sizes. However, the numbers themselves seem to show that while firms are maintaining the income levels seen in recent years, they are not actually experiencing significant financial growth overall. For example, owners' average billing rate was virtually unchanged from the last Survey. Net remaining per owner and net income are modestly higher. At the same time, expenses are also little changed. The conclusion seems to be that demand for CPA services remains strong, but profits have leveled off after a sharp rise seen in the 2006 Survey.

The fact that firms are holding steady at high levels is good news, but it may also be a warning that growth has reached its peak for the time being. As part of their strategic planning, firms may be wise to start considering the best responses if the current demand for services shifts or begins to decline. Given the current economic uncertainty, it may not be surprising to find fee competition from other firms and fee pressure from clients. At the same time, however, CPAs may also be called upon to offer additional services in the wake of the credit market crisis, as banks and other entities look for greater assurance about the companies with which they do business. There may be a greater need for agreed-upon procedures to suit specific situations and more banks may demand audits rather than reviews.

Snapshots of Key Findings

Having introduced some of the Survey's highlights, we'll now examine a few significant results. Remember, though, that this commentary can offer only a glimpse of the information available in the Survey, so practitioners are urged to take full advantage of the wealth of data that this study has to offer and to put the numbers—and conclusions about them—to work in their practices.

GROWTH AND SPENDING

Optimism about Growth

Practitioners report that their firms continue to experience solid growth. A total of 26% of the responding firms saw 10% to 19% growth (measured in gross fees) in the most recent fiscal year, roughly the same percentage as in the 2006 Survey. Another 18% enjoyed 6% to 9% growth and 19% saw 1% to 5% growth. In both cases, these changes were not significantly different from the numbers seen in 2006. Only 10% of firms experienced no change, down from 15.1% in 2006, and once again less than 10% of firms decreased in size.

While the 2008 and 2006 growth numbers are remarkably consistent, they are more robust than those found in the 2004 Survey. Firms experienced tremendous growth between 2004 and 2006 in the wake of the Sarbanes-Oxley Act and the new regulations and requirements associated with it. Firms appear to be enjoying continued demand for their services in 2008.

The figures cited above reflect the overall averages, but not all firms follow the same trends. Among the smallest firms in 2008—those with gross fees of less than $150,000—the largest groups of respondents either experienced no change (a total of 18%) or grew between 10% and 19% (17%). In 2006, a total of 29% of the smallest firms experienced no change. It's easy to imagine that those who did not change were sole owners who preferred to remain small, but even fewer of them apparently did so in 2008. At the same time, there was also tremendous strength within this segment. A total of 8% experienced growth of either 50% or more and the same percentage grew between 30% and 50%. Another 11% grew between 20% and 29%. These numbers undoubtedly may reflect rapid growth among some new start-ups, but their quick expansion seems to indicate a thriving market for services from these firms. This quick growth coupled with a lower number of firms staying the same size than in the past appear to indicate a thriving market for services among the smallest firms.

Self-Reported Growth:

	2004	**2006**	**2008**
30+%	8%	7%	8%
20-29%	6%	9%	8%
10-19%	18%	25%	26%
6-9%	16%	18%	18%
1-5%	22%	18%	19%
None	10%	15%	10%
Decrease	19%	9%	9%
n/a			2%

Related PCPS Resource: PCPS members have access to free, exclusive information and tools for members on a wide variety of practice management topics. Firms interested in practice development should check out these resources:

- The PCPS Small Firm Advantage marketing brochure. “The Smaller CPA Firm: Your Trusted Adviser,” is a multiple award-winning brochure that informs clients about the many benefits of working with a small firm. For more information, go to www.aicpa.org/pcps.
- The Organizational Structure section of the PCPS Human Capital Center provides organizational charts and job descriptions that can be adopted by growing firms. Go to http://pcps.aicpa.org/Resources/Human+Capital+Center/.
- Also check out this tool, available to all AICPA members: CPA Marketing Toolkit. This multifaceted resource helps firms attract new clients and improve relations with existing ones and increase their visibility among the business community and general public. http://www.aicpa.org/Professional+Resources/CPA+Marketing+Toolkit/

How Do Firms Spend their Money?

In examining how firms allocate their dollars, it’s not surprising to find that most go to professional salaries (excluding owners), accounting for about 25% of income (or net client fees). In considering all salaries (excluding owners), roughly 33% of firms’ income was spent on salaries, little changed from 2006. The next highest single expense--office rent and other occupancy costs--represented 5.3% of total income, down from 5.6% in the last Survey. The Survey also offers extensive information on compensation to staff at different levels and in different situations, some of which will be covered later in this commentary.

Related PCPS Resource: The PCPS Human Capital Center (HCC). As the Survey showed, about one-third of firms’ income is spent on salaries paid to people other than owners. Given that level of investment and the battle to attract and retain talented professionals, staffing is a critical area for any firm. The PCPS Human Capital Center provides PCPS members free access to a wealth of tools and information that address firms’ needs across the board, including sections on Performance Management, Team Recruitment, Work/life Balance and Retention, Generation/Diversity Integration, Strategy and Planning, Orientation and Assimilation and Organizational Structure and Governance. As one example, in the Performance Management section, firms will find a comprehensive Firm Competency Model and Competency Self-Assessment Tool that provide detailed information on roles and expectations and related core competencies at each level. They are just two of the many practical tools available to PCPS members in the HCC. Firms will find such resources to be an excellent foundation for their own staffing efforts. Go to http://pcps.aicpa.org/Resources/Human+Capital+Center/.

EARNINGS

What's Remaining for Owners? This number represents the amount that partners can take out of the firm. It is not net *income* per owner, since it may include outlays for benefits, retirement or other items that would vary in each firm. Nevertheless, it does provide a view of what is available to partners once other expenses have been paid.

Across all firms, the net remaining per owner averaged $247,147, up 8% from $228,542 reported in 2006. Within various firm size categories, the net remaining figures were also modestly higher than in the last Survey. Interesting enough, the smallest of firms and the largest experienced the greatest jumps at 12% and 16%, respectively, between 2006 and 2008. Higher income available to owners provides a strong leg on which to stand while headed into uncertain economic times.

What Do People Earn? Amid the competition to hire top talent, what are firms paying staff? Among all firms, the average compensation for directors was $91,999, up 18% from $77,641 in 2006. For managers, the average was $71,986 (up 11% from $64,717); for senior associates, $55,249 (up 2% from $54,041); for associates, $42,213 (up 4% from $40,484) and for new hires $31,042, which actually fell from $33,954 in 2006. Clearly the demand for mid-level personnel has driven the compensation cost up for firms. With the right recruiting strategies at the lower level and stronger retention strategies, firms can help stabilize this area.

Related PCPS Resource: The PCPS Human Capital Center plans to roll out its Compensation section in the coming months. In the meantime, members are directed to:

- *Compensation as a Strategic Asset*, which uses the PCPS 2006 Owner Compensation Survey to identify compensation characteristics, preferences, and methods to create a winning approach to recruiting, retention, goal-setting, evaluation and pay for performance practices. PCPS members receive a discount on purchase of this publication. Go to https://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/PracticeManagement/Staffing/PRDOVR~PC-090493/PC-090493.jsp.

Remaining for Owners:

	2004		
	All	**Smallest**	**Largest**
Net Remaining per Owner	$196,291	$ 42,606	$257,008
Net Remaining per Owner Hour	$ 90	$ 24	$ 111
	2006		
	All	**Smallest**	**Largest**
Net Remaining per Owner	$228,542	$ 43,578	$304,694
Net Remaining per Owner Hour	$ 104	$ 25	$ 129
	2008		
	All	**Smallest**	**Largest**
Net Remaining per Owner	$247,147	$ 48,751	$352,974
Net Remaining per Owner Hour	$ 113	$ 27	$ 149

HUMAN CAPITAL CONCERNS

Are Firms Retaining their People? Firms of all sizes and across the country have been struggling for several years to find and retain qualified staff members. The 2008 Survey numbers bear out that fact. An average of 31.3% reported having lost professionals in fiscal 2007. That's actually good news, though, because it is a steep drop from the 45.6% of firms that had lost professionals in 2006.

In 2008, the smallest firms experienced the least turnover, with 2.7% of firms with less than $150,000 in gross fees losing professionals and 7.9% of those with fees between $150,000 and $299,000. At the high end, roughly half of all firms with gross fees between $1 million and $1.99 million report losing professionals, and a whopping 81% of those with $2 million or more in fees report doing so. Calculating an estimated turnover rate based on the average total terminations as a percentage of the average number of employees, we find a 2008 turnover rate of approximately 14.5%. This is good news for the profession as estimates usually were in the 20%-25% range in past years.

Do Firms Pay for Time Off? Firms' time off policies varied, with 64% offering vacation days and 52% providing paid sick leave, while another 22% offered comp time for overtime worked. Policies clearly varied by size, with only 20% of the smallest firms offering paid vacation and 13% providing paid sick time. That compares with 68% of the largest firms that offered vacation time and 61% that provided sick days.

Firms, including the smallest ones, could be missing an opportunity by failing to offer staff paid time off. In general, professionals with ongoing responsibilities will attempt to accomplish all of their tasks before taking a vacation or immediately upon their return. They do get the work done, in other words, even though they take time away from the office. In this situation, the firm is really providing a free benefit, and one that can aid in retention and recruitment efforts. The 2008 survey did reveal that on average, smaller firms are offering less time off than larger firms. Smaller firms should look at their paid time off policies to offer competitive benefits with the larger firms, especially when there is little to no cost in paid time off.

What Benefits Do Firms Offer? The PCPS Top Talent Study revealed that the highest-quality professionals are interested in firms that will help them advance in their careers and offer them an attractive traditional benefit package. In line with those priorities, the 2008 Survey found that the five most common benefits offered by all firms were payment for continuing education courses; professional dues payment; professional license fees reimbursement; health insurance; and retirement plans—in that order. This was true in firms of all sizes, even though a lower percentage of the smaller firms offered as many benefits as their larger counterparts. More than half of all the smallest firms (those with less than $150,000 in fees) and about a quarter of those with $150,000 to $299,000 in fees did not offer any of these benefits, but this may be because a large number of these firms have no full-time employees.

Reviewing the figures in detail, it is once again startling to see that although many firms offer continuing education, they are not necessarily spending a great deal of money on it, a fact that may undermine their efforts to retain the best and the brightest. Firms spent an average of $13,506 on CPE, up 5% from $12,890 in 2006 and representing 0.8% of their net client fees. The amount spent on promotion and marketing was about 50% more than the total spent on CPE and what was spent on professional dues and library costs was 23% more than the CPE outlay. This set of priorities is little changed from 2006. Given the competition for talent and the pressures to maintain competency in a rapidly changing business world, firms may find that a greater emphasis on training and development programs may enhance their own internal efficiency and improve their recruiting and retention efforts.

Related PCPS Resource: In addition to the many recruiting and retention resources available throughout the PCPS Human Capital Center, firms are directed to:

- The award-winning PCPS Small Firm Advantage recruiting brochure, "Why a Smaller CPA Firm Is A Great Place to Work," tells potential recruits about the many advantages to joining a small firm. It is a free benefit for PCPS members. For more information, go to www.aicpa.org/pcps.

CLIENT ISSUES

Billing rates. The average hourly billing rate across all firms for owners was $171, little changed from 2006, when it was $168. The rate actually dropped slightly for owners at firms with under $300,000 in fees. At the smallest firms, those with less than $150,000 in fees, the rate dipped to $111 from nearly $117 in 2006. At firms with fees between $150,000 and $299,000, owners' billing rates slipped to $135 from $138 in the last Survey. At the largest firms, the rate grew 9% to $240 from $220 in 2006.

At other levels, the overall rate for directors was $156, up from $134 in 2006. For managers it was $133, up from $118; for senior associates, $107 (up from $99); for associates it was $85 (up from $80) and for new hires it remained steady at $76.

Keeping up with inflation and pricing at the appropriate level is essential to the profitability of a practice. The director, manager, senior and associate rate increases between years are a good sign that team member work is valued in the marketplace. However, it seems that owners have underestimated their time and effort. The drop in owner billing rates at smaller firms could also be a product of a different survey participant mix between 2006 and 2008. Either way, CPAs should charge in accordance with their expertise.

Billing Rates:

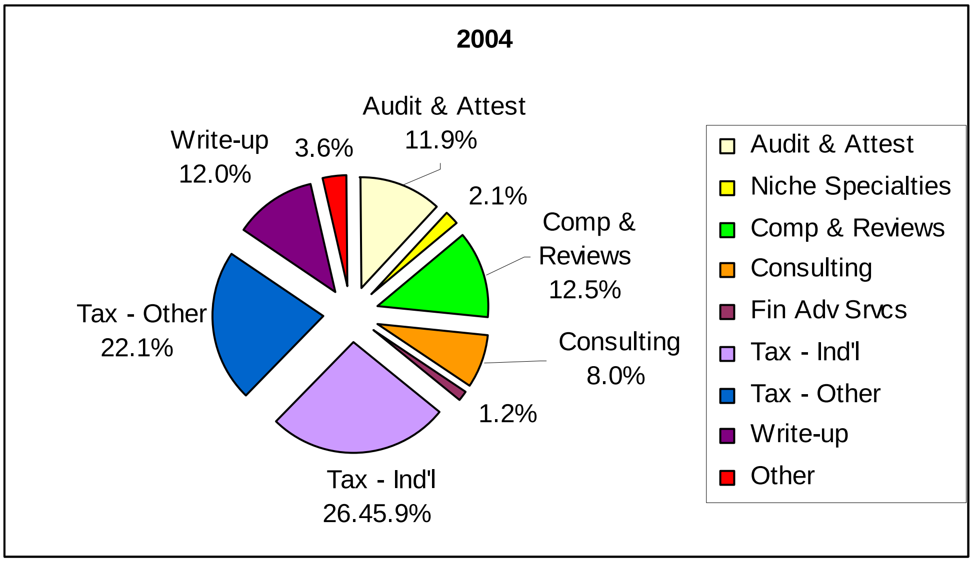
	2004		
	All	**Smallest**	**Largest**
Partner/Owner	$ 160	$ 111	$ 208
Director (11+ yrs exp)	$ 122	$ 86	$ 149
Manager (6-10 yrs exp)	$ 107	$ 68	$ 127
Senior Associate (4-5 yrs exp)	$ 91	$ 63	$ 101
Associate (1-3 yrs exp)	$ 77	---	$ 83
	2006		
	All	**Smallest**	**Largest**
Partner/Owner	$ 168	$ 117	$ 220
Director (11+ yrs exp)	$ 134	$ 125	$ 170
Manager (6-10 yrs exp)	$ 118	$ 66	$ 141
Senior Associate (4-5 yrs exp)	$ 99	$ 78	$ 111
Associate (1-3 yrs exp)	$ 80	$ 60	$ 89
	2008		
	All	**Smallest**	**Largest**
Partner/Owner	$ 171	$ 111	$ 240
Director (11+ yrs exp)	$ 156	$ 120	$ 193
Manager (6-10 yrs exp)	$ 133	---	$ 156
Senior Associate (4-5 yrs exp)	$ 107	---	$ 121
Associate (1-3 yrs exp)	$ 85	---	$ 95

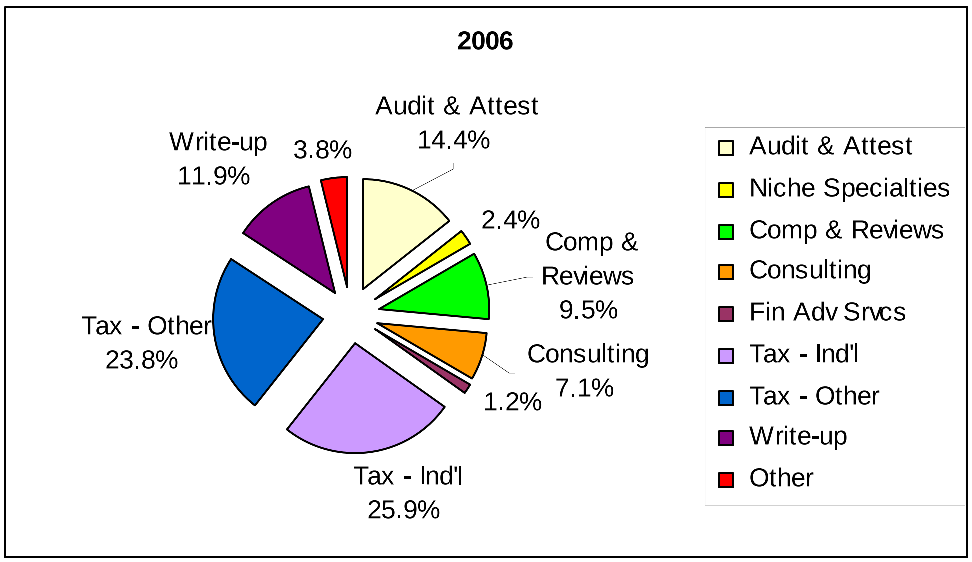
Net client fees per full-time equivalent professional (FTE) and owner. The per FTE number rose 6% from 2006, to $195,670. Net client fees per partner jumped 10% to $664,847.

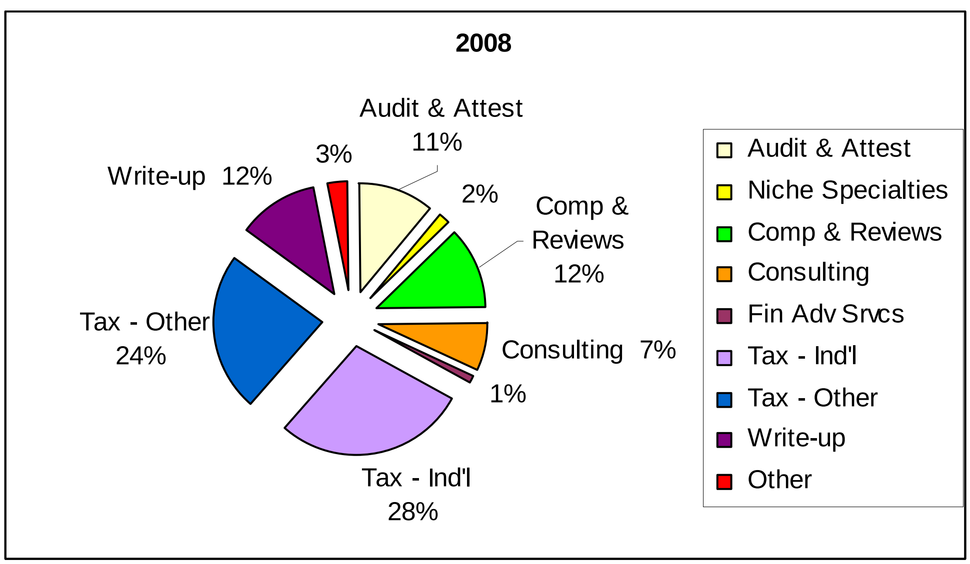
Realization rates. Among all firms, realization—or net client fees earned--averaged 90%, with rates ranging from over 98% at the smallest firms to 88.1% at the largest. These numbers are little changed from those found in the 2006 or 2004 Surveys.

Utilization rates. Utilization rates across all firms averaged 66.7%, with a low of 59.4% at the smallest firms and a high of 69% at firms with $300,000 to $549,000 in revenues. Those numbers were down slightly from the 2006 rates, except among the smallest firms. In that group, they fell from 71.5% in 2006 to 59.4% this year.

Service offerings. The majority of firms' fees derive from tax services: 28% of fees come from individual tax work and 24% from taxes other than individual. Overall, the next most common services were both compilations and reviews and write-up, each of which represented 12% of firms' fees. Next on the list were audits of non-public clients at 10%; and consulting services at 7%. These numbers are very similar to the findings in 2006. While taxes are the service most in demand among all sizes of firm, it's not surprising to find that the largest firms perform the highest percentage of audits of non-public companies (21%). Very few firms among those surveyed perform audits of publicly held companies, with only 1% of the largest firms offering this service.


2004
Audit & Attest 11.9%
Write-up 12.0%
3.6%
2.1%
Comp & Reviews 12.5%
Tax - Other 22.1%
Consulting 8.0%
1.2%
Tax - Ind'l 26.45.9%
Audit & Attest
Niche Specialties
Comp & Reviews
Consulting
Fin Adv Srvcs
Tax - Ind'l
Tax - Other
Write-up
Other


2006
Audit & Attest 14.4%
Write-up 11.9%
3.8%
2.4%
Comp & Reviews 9.5%
Tax - Other 23.8%
Consulting 7.1%
1.2%
Tax - Ind'l 25.9%
Audit & Attest
Niche Specialties
Comp & Reviews
Consulting
Fin Adv Srvcs
Tax - Ind'l
Tax - Other
Write-up
Other


2008
Audit & Attest 11%
3%
Write-up 12%
2%
Comp & Reviews 12%
Tax - Other 24%
Consulting 7%
1%
Tax - Ind'l 28%
Audit & Attest
Niche Specialties
Comp & Reviews
Consulting
Fin Adv Srvcs
Tax - Ind'l
Tax - Other
Write-up
Other

Related PCPS Resources: These publications address billing and pricing. PCPS members receive a discount on both:

- *Bill What You're Worth*, by David Cottle, describes pricing methods and methodologies and explains how to discuss pricing with clients, and how to motivate employees to bill what they're worth. Go to http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/PracticeManagement/PracticeAdministration/PRDOVR~PC-090479/PC-090479.jsp.
- Articles on pricing services in the AICPA Management of an Accounting Practice Handbook also provide insights: http://pcps.aicpa.org/Resources/Fee+Pressure+Pricing/.

PRACTICE MANAGEMENT

In examining specific practice management issues, succession planning and professional training are apparent continued weaknesses for firms to address. According to the 2008 Survey, 94% of firms did not have a formal partner-in-training program. Only 22% had a succession plan. Among the smallest firms, only 7% of firms with less than $150,000 in fees had a practice continuation agreement and only 10% of firms with fees between $150,000 and $299,000 did so. A little more than one-third of all firms—37%--had a written partnership agreement. Among those that had one, 27% had not updated it in the last 6 years and 15% had not updated it in the last 9 years. Only 23% had a partner compensation formula.

Professional training is another weak spot. The Survey found that continuing professional education represents about 1% of firms' expenses, roughly 50% less than was devoted to promotion and marketing and less than half of what firms spent on information technology. It would appear that one powerful way to set a firm apart in the recruiting marketplace would be to offer an established career path and generous learning opportunities.

Related PCPS Resource: The PCPS Succession Resource Center—a free exclusive resource for PCPS members--is designed to address the many different goals that practitioners may have for their future. The Center is organized based on expected needs, including resources for those who want to sell or merge a firm, develop future leaders, handle retirement transitions or simply shut the door behind them upon their own retirement. There's also background information that explains the relevant demographic, aging, gender and retirement trends, predictions on how these trends will affect CPA firms and insights into external forces and how they will shape developments. Source material for the Center was designed by the Succession Institute LLC, created by Bill Reeb, author of the PCPS publication, "*Securing the Future: Building a Succession Plan for Your Firm.*" Visit https://pcps.aicpa.org/Resources/Succession+Planning/.

PUTTING THE NUMBERS TO WORK

For practitioners, the findings in the Survey may offer surprises, reinforce current policy decisions or answer questions about where a practice stands in relation to its peers. The areas of greatest interest will be different for every practice.

Throughout the commentary, we have recommended PCPS and AICPA resources that relate to specific practice management concerns. CPAs are encouraged to turn to the PCPS Firm Practice Center often to see the latest additions, and to visit both the PCPS Human Capital Center and the PCPS Succession Resources Center to find out about new material and updates. Access to the PCPS Human Capital Center and the PCPS Succession Resource Center is a free benefit of PCPS membership. Go to www.aicpa.org/pcps.

Turning to other exclusive benefits of PCPS membership, PCPS members are also urged to participate in the online PCPS Practice Management Forums, which provide timely updates on the latest developments affecting smaller firms, and to consider joining the PCPS Firm Networking Groups. The Small, Medium and Large Firm groups, which each meet twice a year, allow members to share common problems and solutions with CPAs in practices much like their own. Find out more about both at www.aicpa.org/pcps.

Of course, the 2008 PCPS/TSCPA National MAP Survey itself contains information on issues related to succession and other partnership considerations, including data on the components of partnership agreements, buyout provisions and partner compensation. Turn to the Survey for a wealth of information on the issues of greatest importance to smaller CPA firms by visiting http://pcps.aicpa.org/Resources/ and clicking on "National MAP Survey."