

Small Practice Profit and Loss

6 steps to increase your profitability

Introduction

How would you feel if we told you that you could increase your profitability and stop working with your most difficult clients?

Interested? Of course, you are.

In this guide, we will map out the steps you need to take to achieve this.

Everybody will have a different perception of what a bad client is and there might be some agents reading this guide that don't believe they exist.

We will share what we think makes a bad client and how you can identify them in your client base.

We know that the prospect of losing the revenue generated by 'bad clients' can be daunting. That is why we created this guide. We help you analyse your current customers and services to find the opportunities for growth.



Getting Started

For the guide to work, you will be required to gather some information.

This data is simple to collect and will form these 6 steps to increasing your profitability:

Client Audit

Magic Matrix

Plan the Upsell

Analyse Internal Services

Establish Communication

Meeting Scripts

Step 1: Client Audit

If you are going to stop working with bad clients, it's important you know who they are.

We recommend grading your clients into these four groups.

You will already have a pretty good idea of who will be in which category but formulating fixed criteria increases the accuracy of the process.

We suggest you use our terms as a starting point and you should not hesitate to adapt the criteria to suit your personal preferences.

Grade A

Top 10% of clients

These clients provide key revenue

You like working with them

Get on professionally and personally

Receive referrals from these clients

Grade B

Provide 30-40% of your revenue

They possess similar qualities to A's but not quite as many

Could be businesses that do not generate as much revenue as A's but are still pleasant to deal with.

Grade C

40% of clients

Mostly compliance customers

Provide a steady income

Have little prospect of growth

Pleasant to deal with but could be better.

Grade D

Bottom 10%

Use your least valuable services

Pay invoices late

Withhold information

Rude

Lack integrity

What to do with the information?

After completing the grading, you should have a document with all clients grouped in the four categories.

Here comes the big step...

We recommend you stop dealing with all grade D customers.

If there are certain clients in grade C that you would like to stop working with because they are constantly difficult, then now is the time to cut ties.

This is your practice and your time is too precious to spend on clients that are more trouble than they are worth.

The time created by ceasing to work with bad clients will be spent adding value to your relationships with good clients. To be successful you will need to turn grade C clients into grade B's and grade B clients into A's.

This may seem like a big risk that could damage your bottom line but follow the steps in the rest of the guide to find out how to capitalise on the extra time created and increase your revenue in other areas.

Step 2: Magic Matrix

You have graded your clients and should have settled on an approximate number you will stop working with. You may be relieved that you will no longer see those bad clients but you acknowledge that those clients contribute to your revenue.

How will you replace that money?

We present Peter Thomson's creation, the Magic Matrix, to rescue your revenue needs.

The Magic Matrix helps accountants audit the services they provide and realise the opportunities for growth within their existing client base.

What you must do, is go into excel and list all your services down the vertical axis.

Once you have listed all the services you provide, you must insert each client along the horizontal axis. We recommend starting with Group A clients and then moving through Groups B and C.

Once the graph is laid out, you are to fill the squares that correspond to the services you provide each client. It should look like this:

Annual Accounts				
Corportation Tax				
Personal Tax				
VAT Return				
Payroll				
Business Plan				
Cashflow				
Bookkeeping				
Company Formation				
	Client A	Client B	Client C	Client D

Step 3: Plan the Upsell

You are now trying to add value to your top-tier clients.

The Magic Matrix has represented the upsell opportunities and we recommend creating the following table to instruct the strategy of your next step.

To create the table, list your services in one column and beside them insert the average cost your practice receives for that service.

It should look something like this:

	Average Cost of Service
Annual Accounts	1000
Corporation Tax	500
Personal tax	250
Vat Return	1000
Payroll	1440
Bookkeeping	1800
Cashflow	2500
Business Plan	2500
Company Formation	1500

If losing your grade D clients cost you £15,000, you can see that you need to acquire 4 new bookkeeping clients, 2 more cashflow clients and 3 new sets of annual accounts to make up the deficit.

This table represents the opportunities for increasing profits now that grade D clients are gone.

Step 4: Analyse Internal Services

Those practices still using time sheets will find this easy.
You must create a table and...

- Record how long you spend on each service
- Match it with the service fee and see if it is appropriate
- If the calculated wage is not desirable then you need to investigate why

If payroll is a lot more profitable for client A than client B and they are similar customers, ask yourself why?

You may discover that client B is getting more services than client A and not being charged for them.
The process enables you to check that your billing system is correct.

The system also analyses staff performance.

If employee C takes twice as long to generate final accounts than employee D, why is that?
They could be completing unnecessary work that is impacting the efficiency of your practice.

This final audit enables you to gather all the information you need to plan your next step.

Step 5: Establish a communication plan

It's time to utilise the information gathered from the analysis and start increasing your profitability.

From the Magic Matrix and average fee per service table, you should have targeted the services you can upsell to each client.

If the internal audit found that you need to amend the fees of some clients, this is the time to raise that information.

We recommend that you establish a communication plan with your clients that follows the following criteria:

Grade A

Establish a meeting routine every 90 days.

When possible it would be good for the agent to visit the client.

Prioritise the top targets of your upselling for the ones that partners should visit.

Using the data from the magic matrix, target the services you wish to upsell to each client.

You should utilise your good relationships with this group and highlight the additional value you can bring these clients.

Grade B

Setup a meeting routine with the partner client manager, again 90 days is what we recommend.

You need to impress this group and assigning a partner is a guaranteed way to show your investment in this client.

You should have a lot of high value prospects in this group.

Use the magic matrix to target the services you can upsell to each client.

The aim is to move as many grade B clients into group A, to maximise profitability.

Your meetings with grade A clients will inform you how hard you must upsell.

Grade C

Setup a meeting routine with client manager every 6 months.

Try to move as many of these clients from C's to B's.

Use the magic matrix to target the services you can upsell to each client.

The aim is to move as many grade B clients into the A group, to maximise profitability.

Depending on how your meetings with grade A and B clients, will tell you how hard you must push to upsell.

If A and B have gone well you could reduce the amount of C clients.

Step 6: Meeting Script

So, you have all the data you need and now we get to the most important part, the selling. We have created this dummy script to help guide you through the process and provide guidance about how you should go about upselling your services.

This client takes Accounts Production but not Personal tax. The agent has previously provided unbilled cashflow advice that the client has benefited from.

Accountant: “Hello George. As you know, it’s been a great year for the business. How have you found our relationship during the year?”

Client: “It’s been very useful. I’ve benefited from the advice that you have given on planning and the chat around cashflow was good. I really need to take that as a service this year.”

A: “That’s great and nice to hear. Is there anything that we can do to improve our service?”

C: “Well yes there is – you personally are always busy, so it can be difficult to get hold of you when I have a simple question to ask.”

A: “That’s interesting to hear and of course we do have a lot of clients that we look after. We are always looking to improve our service and it is frustrating that if you have a quick question, it can’t get answered. Have the rest of the team not been able to help?”

C: “I’ve never asked because you are the only person I speak to. Do they have the skills?”

A: “Of course they do, I have a highly skilled team, which includes two qualified accountants, part qualified team in the office and we also have a CRM system, which the whole office use. This means that all emails and messages sent in from you are stored centrally in your client folder, which means even if I’m not around, somebody else will be able to answer. Also, because of this exact situation, James, on the client team is our designated client co-ordinator. This means it is James’ responsibility to ensure we collect all the paperwork from every client before we start a job. James would be an ideal contact for you to ask any questions or leave a message for me. You know that I always return calls and messages as quickly as I can.”

C: “That sounds a big improvement.”

A: “We are certainly finding that with other clients. So, is it possible for me to ask an additional question George?”

C: “Please do.”

A: “Do you know that we offer a Personal Tax service. Because we already complete your business accountants and corporation tax affairs, it will be very simple for us to complete your Personal Tax return. As we use Nomisma software, all the business information can automatically synchronize through to your personal tax return. This not only saves time because all the figures do not need to be inputted again but it also means they are 100% accurate.

It will save you time instead of having to deal with two accountants to complete your return. Why are you not using us to complete your personal tax return today?”

C: “Actually, I’m glad you raised this. My partner has always complained about the perceived cost. I currently waste two weekends in January fighting to find the paperwork and then I’m never sure I’ve completed the return correctly.”

A: “As I keep writing in our newsletter, I’m not here to complete your paperwork, I ‘m here to let you sleep comfortably and without anxiety.”

C: “I can see that. Maybe I should read your newsletters. So, as well as providing cashflow, can we talk about my full self-assessment return...

Time to increase your profitability

We have given you all the information you need to stop working with the unprofitable grade D clients and use the additional time to increase the profitability of your relationships with good clients.

Refer to each of the sections in this guide to manage your analysis and actions. Don't be afraid to adapt our advice to suit your practice.

Good luck!

