

## Business Diagnostic Check-Up

Firms are drilling down and analyzing their clients' financial data, and conducting industry benchmarking to enhance efficiency and profitability.

By Jeff Stimpson

August 1, 2008 - Analysis of a client's business can turn up areas that need improvement but aren't readily apparent, as well as processes that can be streamlined with a big impact on the bottom line. Firms have started to include this advice in monthly/quarterly reporting, and are providing the information to clients and charging for it as an ongoing service.

"These engagements typically start off as a consulting engagement to look at a process or attempt to fix a problem," says Timothy Tikalsky, shareholder with the Walnut Creek, Calif.-based RINA Accountancy Corporation, which has been doing these engagements for about five years. "Usually, we're able to convince the client that what they're looking at is more likely not the problem itself, but a symptom of a more serious problem. For example, if a client wants to improve cash flow, this is probably a symptom of poor billing practices. We're happy to help the client analyze the activities around the billing process, but we encourage them to then tie these activities to an overall strategic plan. What started out to be an engagement to improve cash collections has now become a strategy to improve timeliness of work flow." Many firms are also doing business-process outsourcing for clients, acting as CFOs or finance departments for what Intacct senior VP Daniel Druker estimates at some 60 percent of the cost clients could do such work themselves. "Firms that gravitate to us are trying to grow their business and become trusted advisors to their clients and get out of \$40-an-hour bookkeeping," he adds. "Business intelligence is a big part of that."

"There are significant opportunities for many firms to add value through consulting engagements which involve productivity and efficiency improvements," says Gerald Archibald, partner with The Bonadio Group, Rochester, N.Y., which started offering these engagements almost 10 years ago.

### **Software Environment**

Analysis engagements often used to be one-on-one marathon sessions between business owners and their consultant CPAs, with spreadsheets fanned out on a tabletop and both parties hammering out new business processes. "Web-based apps have changed that in a big way," says Seth Pomeroy, partner-in-charge of CFO outsourcing and accounting technology at the Chicago-based NDH Group, user of Intacct.

“Web-based apps allow multiple parties to use the system at the same time. These apps are stable, and in practice they provide a distributive work process where you can have various staffers and owners using the app and all interacting.”

Analysis software, in general, provides such functions as benchmarking, reporting, and forecasting to help consultants and clients clarify profit-improvement strategies and spot problem areas in the client’s business. Some vendors tout their apps as standalones, while others maintain that use of analysis software makes an excellent add-on to a tax or audit engagement, and, further, promotes cross-selling with a firm’s other services.

“You want an application that takes the basics (balance sheet and P&L) and can transform numbers to much more: graphs, commentary, ratios in a usable format,” says Mike Celada, director of member services for RAN ONE Americas.

“We make it easy for our financial advisors by providing them the required software as part of our standard technology suite,” says Josh Bohlander, senior manager, technology product management for St. Petersburg, Fla.-based Raymond James Financial, which conducts these engagements for financial advisors and senior management. “The tools are constantly changing, and it’s important to choose wisely.” He adds that RJ uses Microsoft’s Business Intelligence platform.

Pomeroy works with clients in such fields as computer sciences, high-tech manufacturing, virtual manufacturing, private equity funds, offshore funds, and others, bringing what he terms “a public-market setting, with quarterly results and forecasts,” to “fast-track” SMBs. “These types of companies need a finance and accounting function that helps drive their business, and they need results,” he says. “Part of what we do is organize a reporting and analytic effort to help the client understand trends in their business, and compare their results with what they expected.”

NDH started these engagements about nine years ago. “We saw a huge hole in what SMBs had in terms of analytics. In the old world, there would be multiple databases and points of entry and applications, and in the Web world there’s one, and that streamlines the process.” Pomeroy also terms these engagements as “aligning people, process, and technology,” and discounts reliance on dashboards alone to the exclusion of the decisions that have to spring from the data on the dashboards. “A lot of people don’t sit down and think about what it takes to get relevant data out of a dashboard,” he notes.

### **A Matter of Ratios**

Bonadio uses an “A-score assessment tool,” which “employs 12 readily available financial ratios to develop a ‘score’ as a predictor of financial stability for a non-profit organization,” says Archibald. “Each ratio is assigned a weight in calculation. The resulting score is based on a 100-point scale. This assessment tool is most useful on an annual calculation basis. More important than the absolute score developed for the organization is the development of the score over a five-year trend analysis,” he adds. “Improvement or deterioration in these ratios over a multi-year period can be helpful to

both agency management and the board in establishing strategic goals and targets for the organization.”

The A-Score uses a statistical, multitiered weighting methodology for each ratio used. The impact of each ratio on the overall score is based on three factors:

1. The relative importance of the ratio to the overall score: high, medium or low;
2. The desirable target level determined for each ratio; and
3. The deviation of the actual ratio from the desirable target.

“Our staff who perform this type of work are either certified in strategic performance management or are well-versed in the tools that accompany that certification,” Tikalsky also says. “The primary tool is CCH Profit Driver, which actually integrates with other CCH products, making data entry simple with a ton of valuable output.”

Terry Rogers of Fort Payne, Ala.-based Advanced Accounting “actually wears two hats: CFO for a family newspaper group of weeklies, and head of his own CPA practice as an additional business. “As CFO for the newspapers, we’re involved in all sorts of metrics,” he says, “such as FTE man hours, printing, payroll and postage percentages, net margins, and so forth.” This information is useful in being predictive, Rogers adds.

“Since we have found these benchmarks to be helpful, I figured my business clients would find it helpful also, but I had no standard methods or forms,” Rogers adds. “Then Thomson came out with Financial Analysis CS software, and starting in 2006, I began to include as part of my year-end work this benchmarking information. Once one has the correct industry code, a great deal of information can be extracted from the client’s historical information. The software allows one to generate reports, with tremendous details, in both a graphic and a report format with two- and five-year comparisons, industry and group comparisons, and detailed ratio analysis reports for all standard ratios. And of course the reports are customizable. I let the software generate all the reports that it possibly can, usually 50 or more pages, and then review and cut the report down to the relevant information for each client.” The group can be one’s own client base, or one can download data from Thomson for other similar clients, he says.

“I have made my own local benchmarks, basically general and administrative expenses analyzed across industries” Rogers says. “Most local clients don’t care about how they stack up against those in other parts of the country, but want to know how they stack up against local businesses. I already use the majority of Thomson products, and Financial Analysis was a natural extension. The most important part of the Thomson software for me was the virtual integration, which meant no re-keying of client data. The information is extracted right from Creative Solutions Accounting.”

### **Client Areas for Improvement**

Most-common savings appear to be in the form of office staff, telephone, and insurance expenses, Rogers says. “The last three clients that I have added all cut insurance costs by 15 percent or more,” he says.

“We research and engage discussions with the client to ensure a good understanding of their individual business,” says Denise Fitzpatrick, supervisor of small business consulting for Carr, Riggs & Ingram, Niceville, Fla., user of ProfitCents and First Research. “We do additional research from other independent sources about the industry as well. Once the report is prepared, we sit down with the client to make sure they have a good understanding of the industry averages and benchmarking. We also review the client’s existing accounting software to make sure all of the accounts and reports are classified correctly so they can use their system to continue monitoring their operations.”

Cash flow is usually the most common client concern, Tikalsky says, “the most visible and therefore the most painful. Helping a client identify all the activities that turn work into cash and then measuring those activities is very doable, and the results can be immediate. More recently, we’ve been engaged to assist clients in their overall strategic plan. Most clients don’t have one, and, if they do, it’s not written down. We help them formulate a plan by facilitating planning meetings or mini-retreats, then develop metrics and dashboards to monitor the progress.”

The A-Score methodology identifies both financial performance and operating efficiency areas for further investigation, Archibald says. “Based on the benchmarking of the individual client’s results on the 12 A-Score metrics, compared to industry targets and best-in-class providers, the provider is able to focus on individual areas for improvement.

Celada says these engagements can also typically help clients in such business areas as customer acquisition and defection, pricing, and transaction frequency. Some clients, however, may be more motivated by the big picture of improving their business than by the details. “Explaining or showing a business owner financial ratios and KPIs typically ends with the owner walking out of the room with his eyes glossed over,” he says. “You must learn to share and present information to an owner. Even if they don’t know everything about the ratios or KPIs, they can see a rise or fall in a graph and equate a negative or positive feeling to that. Using callouts and commentary to support the graphs will fill in the blanks for the owner and give him or her something to refer back to after the meeting. Adding benchmarking data is a significant help, as this can be used to help identify how well the business is performing in relation to its competition.”

### **Marketing Approaches**

Archibald’s firm markets this service through its Web site and through client proposals and targeted e-mail and s-mail campaigns. Fitzpatrick’s firm uses a variety of marketing techniques, including radio, print, and direct mail. “One of the greatest tools for marketing is direct contact with our existing client base as a value-added service,” she adds.

Tikalsky says the service is marketed primarily through word-of-mouth and meetings with such referral sources as bankers and attorneys. “Bankers love this process,” he adds, “because it makes their clients more bankable. More recently,” he adds, “we’ve embarked on a campaign to make this available to our ‘A’ clients. This campaign involves the identification of our best clients, usually one for which we perform an attest function such as an audit or review, but can also include a tax-only client, and then an analysis of the client’s operations benchmarked against their history and the history of their competitors. A letter goes out, along with the analysis, highlighting some features that are unique to their situation. We then follow up with a meeting to discuss the analysis and decide what the next steps should be, if any.”

Billing at Pomeroy’s firm, he says, usually takes the form of an agreed-upon, set monthly fee, plus the subscription fee for the user of the software. Cross-selling these engagements is also effective. “The five largest clients of our firm use all the services of the firm,” he says. “We’ve found CFO, accounting technology, and tax functions work very well together.” He notes that his staff is also “a different wheelhouse,” with several staffers working on their CFAs or other advanced degrees and certifications. There are also attorneys on staff. “‘CPA’ is the table stake, but it’s getting away from that when we provide a real alternative to an internal CFO and, in some cases, CIO,” Pomeroy says.

“This service can be easily bundled into the services you are already providing clients,” Celada confirms. “It should become part of what you do for all business clients. It also creates a differentiator for your firm. This can also be marketed as monthly meetings where the conversation and focus is not just limited to the financials, but deeper into direction and goals.”

One approach firms can take to drive engagements is to package new client offerings, says Thomas Mullertz, director, ERP product marketing, Microsoft Business Solutions. MS includes “role centers” to fit work styles by adding specific data, reports, alerts, or tasks. Firms can customize the centers for CFOs, accounting managers, credit and collections managers, and more. Key performance indicators are prioritized and tasks tailored to specific positions within an organization. “Initially, I gave the service away, and asked the client to pay what they thought it was worth,” Rogers says, “and most actually paid me more than I thought they would.”

### **Best Advice**

“You hopefully end up with what I’d describe as ‘real time data’ of an organization,” says Pomeroy. “Managers and stakeholders can quickly move their allocation of resources, fancy words for getting more out of their assets.”

Factors important to such important third parties as banks can also be more quickly grasped, he also says, adding that forecasting must also be constantly revised by the client management for the process to work.

Pomeroy stresses that firms looking to enter this practice area must look at the long term. “This is about trying to develop more subscription-based revenue, and that depends on a different mindset in terms of developing knowledge of the system and marketing. It’s not like completing a tax return and billing a client for it. It takes longer to recoup, but you’re going to recoup more significantly.” Most important, says Rogers, “You must either offer you client this type of service, or be left in the dust by those that do.”

### **Some Players and Apps**

- **Bizbench** – [www.bizbench.com](http://www.bizbench.com)
- **CaseWare Scenarios** – [www.caseware.com](http://www.caseware.com)
- **Exact Business Analytics** – [www.exactamerica.com](http://www.exactamerica.com)
- **First Research Industry Intelligence** – [www.firstresearch.com](http://www.firstresearch.com)
- **Intacct** – [www.intacct.com](http://www.intacct.com)
- **Microsoft MS FRx** – [www.microsoft.com/bi](http://www.microsoft.com/bi), [www.microsoft.com/dynamics](http://www.microsoft.com/dynamics)
- **OneSource** – [www.onesource.com](http://www.onesource.com)
- **Panorama NovaView** – [www.panorama.com](http://www.panorama.com)
- **ProSystem fx Profit Driver** – [www.cch.com](http://www.cch.com)
- **Quantrix Modeler** – [www.quantrix.com](http://www.quantrix.com)
- **RAN ONE Americas** – [www.ranone.com](http://www.ranone.com)
- **Sage Software** – <http://sageaccpac.com/>
- **Sageworks ProfitsCents** – [www.profitcents.com](http://www.profitcents.com)
- **Salient** – [www.salient.com](http://www.salient.com)
- **Thomson Financial Analyzer CS** – [www.CS.ThomsonReuters.com](http://www.CS.ThomsonReuters.com)