What Gets Measured Gets Done Whitepaper

Incorporating Measurement and Accountability into your Business Development Efforts

Introduction:

In the past decade of helping CPA firms grow their top line business, we've watched as they start to realize the skills they need to build internally, the activities they need to engage in, and the budget and time they need to dedicate to business development. It's rewarding to observe the transformation as firms increase their business development focus.

One business development necessity, however, hasn't really seemed to take hold (yet, hopefully): holding partners and others in CPA firms accountable for activity and results. Without accountability, implementation of business development plans and activities is sporadic at best, and results are therefore unpredictable.

While many CPA firms set an annual revenue goal, measure total revenue vs. the goal at year-end, and offer some form of reward to individuals who bring in new clients, there are risks to this minimal approach to measurement and accountability:

- Setting one simple revenue goal for the entire firm does not give individuals a sense of responsibility for reaching the goal, and depending on your goal-setting process, can be deceiving in terms of the level of effort
  necessary to reach the goal. Many firm individuals will be lulled into the feeling that the goal will easily be reached and others will take care of it.
- Measuring results vs. goal at year-end is important, but doesn't do much for you if you fall short. How will you know when you need to make adjustments in effort, investment, and/or skill-building in time to reach the goal?
- Rewarding new client acquisition is good, but what about the people in the firm who believe they are doing what they should with regards to business development but haven't yet landed a new client; how does firm leadership really know if people are doing the right things, and doing them effectively to get results?

The challenge is how to start building a culture of accountability when it hasn't been there historically in your firm. This article will describe four measurement tools you can easily establish and use to hold people accountable:

- Annually - set the right growth goal(s)
- Semi-annually - measure actual billing results vs. the goal
- Quarterly - review referrals given and received by referral source
- Monthly - update and analyze your sales pipeline to assess progress and results

Annually: Set the Right Growth Goal(s)

Each year at the beginning of the year, you should set an aggressive, yet realistic growth goal – for the firm, for any niche teams you have, and even for individual partners where appropriate. The trick is setting the right goal – aggressive enough to grow at the rate you should and realistic so your people don't become discouraged. You will have better insight into what the right goal is if you use the approach described below.

Often, CPA firms target growth at simply 10 percent above revenue from the previous fiscal year. In reality, a growth goal needs to be calculated based on several factors, including:

- Net new business needed
- One-time project/non-annuity work to be replaced
- The average useful life of clients (potential lost clients)

> *In reality, a growth goal needs to be calculated based on several factors*

One-time projects:

Typically between 10-30 percent of CPA firm revenue each year comes from one-time projects (non-annuity work) that have to be replaced. Of course, some of this non-repeat revenue will happen simply because you have strong client relationships and clients call you when they need help. But it's important to honestly evaluate whether that will be enough to replace all of it, or whether you need to be proactive to replace it and grow. The more dependent your firm is on these one-time projects as part of your revenue base, the more proactive you likely have to be to ensure it is replaced.

Lost clients:

How long do you retain clients on average? Sure, you've had some clients for 30+ years; but likely you've also had client relationships that lasted five years or less. If your average client lifespan is 20 years, you lose (on average) 5% of your revenue each year from lost clients; if the lifespan is 10 years, you lose 10% in an average year. This too is revenue that needs to be replaced before you can star to grow year-over-year.

Table 1 illustrates the calculation of how much gross new business must be generated by a $5 million CPA firm who wants to grow by 10%:

Table 1: Growth Goal Components

Growth Goal:		
Starting Revenue	**$5,000,000**	
Net Growth Goal	**10% growth**	**$500,000**
Revenue Goal	**$5,500,000**	
Assumptions		
One-time projects	**20% of revenue**	**$1,000,000**
Average Life of Clients	**10 years**	**$500,000**
Gross New Business Needed:		
Net New Revenue	**$500,000**	
Projects To Be Replaced	**$1,000,000**	
Lost Clients	**$500,000**	
Gross Growth Goal:	**$2,000,000**	

The final component of goal setting is determining where your growth will come from. There are four options for where you can generate revenue:

1. Price/fee increase on existing client work
2. Replacing the amount of one-time project work for existing clients
3. Increasing the services to existing clients (whether project or annuity work)
4. Acquiring new clients

In the example above, the firm needs to generate $2,000,000 in gross new revenue. Below is a potential scenario for how this revenue could be generated:

Gross new business needed:		$2,000,000
Fee increase on existing work	Assume average 3%	150,000
Replace projects	Assume can replace 100%	1,000,000
Increase services to clients	Goal of 10% increase	500,000
New clients	Assume 14 clients @ $25k each	350,000

You can run different scenarios based on where you believe your growth opportunity is and determine the best combination of new revenue sources to reach your growth goal. If, for instance, you felt you couldn't replace all of your client project revenue or increase services to clients next year due to economic constraints on your client base, you would need to increase the number and/or size of new clients you acquire in order to reach your goal.

Semi Annually: Measure Billing vs. Goal

Now that you've set a detailed growth goal and identified the sources of growth, the obvious next step is to track how you're doing vs. your goal. But only doing this measurement at the end of the year means you won't have time to adjust activity if you're falling short. Calculating your year-to-date revenue at the six-month point and comparing it to your previous year's numbers will give you an accurate idea of how you're tracking on your growth goals and give you time to increase activity or shift focus if necessary. At year-end, analyze results again to help determine how to set next year's goal.

Table 2 shows an example of a straightforward method for measuring actual billing results. This tool provides you with all the information you need to determine how you're doing vs. goal and how to adjust if results are low.

Table 2: Sales Results vs. Growth Goals YTD

Client	Current Year Fees	Prior Year Fees	Change from Existing	Change from Lost	Change from New	Total Change
1	$15,000	$10,000	$5,000			
2	0	25,000		-$25,000		
3	22,500	24,500	-2,000			
4	42,000	0			$42,000	
5	35,000	42,500	-7,500			
Total	$84,500	$102,000	-$4,500	-$25,000	$42,000	$12,500
Goal:			$25,000	-$25,000	$50,000	$50,000

What Gets Measured Gets Done Whitepaper

Incorporating Measurement and Accountability into your Business Development Efforts

This measurement tool involves simply pulling billing data for each client for the current year-to-date and the same time period a year ago. For all clients who have billings greater than zero in both periods, the year-over-year change is recorded in the column “Change from Existing”. For those who had zero billings in the prior year, but are above zero this year, the change is recorded in the “Change from New” column, and those who went from billings last year to zero this year are recorded as “Change from Lost”. This is a report you should be able to pull from your billing system and manipulate in Excel to determine the changes and in which column they belong. It’s important to consolidate all billings for a client into one “entry” for the report (rather than separate totals for different services). Once you have all the columns totaled and compare to goal, you have information to make some important decisions, whether you’re at the half-way point through the year or at year-end.

This example shows the firm is up year-over-year by $12,500 total vs. a net growth goal of $50,000. Revenue from existing/continuing clients is actually down year-over-year; the revenue loss from lost clients is right at our expected amount for the year and we’ve almost attained our goal for bringing in new clients.

If we’re looking at this report at the half-way point:

1. What can we do differently in the second half of the year to increase activity and generate more new business to reach our goal?
2. What’s getting in the way of maintaining/increasing revenue from our existing clients? Is it something we can work around or do we need to go elsewhere (new clients) for growth? Are we being proactive enough in this area? This should be our easiest, quickest way to get short-term growth, so what specific activities can we plan to generate cross-sell opportunities?
3. Do we expect or know of any additional client losses for the rest of the year? Do we need to adjust our existing and new client goals (and therefore our activity levels) to make up for higher-than-expected losses?
4. We had success bringing in a large new client. What can we do more of to continue/repeat this success?

If we were looking at this report at year-end, the questions and decisions are somewhat different:

1. Is a $50,000 net growth goal too aggressive and not attainable? Should we set a more conservative goal next year so people don't become discouraged, or has something changed that will allow us to reach an aggressive growth goal?
2. What different/new activities do we need to plan and/or what processes do we need to put into place to be more proactive about cross-selling services to existing clients? Are we getting in front of our clients frequently enough to ensure we are helping them with all their business needs?
3. The lost clients number is right at goal. We should continue to plan for that level of losses when setting our goal.
4. What can we continue to do (and possibly do more of) to continue bringing in large new clients? Should we increase our goal for new clients?

> *Calculating your year-to-date revenue at the six-month point and comparing it your previous year's revenue will give you an idea how you're tracking vs. your growth goal.*

Quarterly: Review Referrals Given and Received

One of the most reliable methods of bringing in new clients is through referrals. CPAs have traditionally built relationships with bankers, attorneys and other professionals to exchange referrals and introduce each other to clients. In fact, this activity is most often where CPAs spend the bulk of their business development time. How can you make sure your firm is getting a positive return on this time investment? By making sure your people are building relationships with the right people and being proactive about providing and asking for referrals.

Table 3: Referral Tracking Tool

Referral Tracking

As of: June 30, 2011

			Referrals Received			Referrals Given		
Referral Source	**Contact**	**Last Contact**	**Company**	**Contact**	**Date**	**Company**	**Contact**	**Date**
ABC Bank	Bob Smith	4/30/2011				Acme Manufacturing	Bill Brown, CFO	2/15/2011
						Eco Builders	Dan White, Owner	4/30/2011
	Jane Doe	2/1/2011	Medical Group	Dr. Spock	2/1/2011			
XYZ Law Firm	Marc Jones	6/1/2011						
	Beth Johnson	5/15/2011	Peoples Bank	Frank Davis, President	2/1/2011	Distributors Inc.	Lisa Coleman	3/31/2011
			Auto Group	Bill Vernon, Owner	5/15/2011	Mercy Hospital	Paul Hoffman	5/15/2011

Table 3 above shows a simple spreadsheet you can employ to gather valuable information and evaluate your referral source networking activity. By simply tracking the date of last contact and all referrals received from and given to each individual, you get a clear picture of your effectiveness.

In the above example, we are networking with two individual bankers from ABC Bank and two attorneys from XYZ Law Firm. The first banker, Bob Smith, has received two referrals from us but given none. We've been in contact with Bob within two months from the date of this report. We received one referral from Jane Doe at the bank but haven't been in contact with her since receiving the referral. Do we owe Jane a referral? Should we give her the next one instead of Bob? Is Bob the right person to be targeting? Are we being proactive enough in asking him for referrals?

You can see the importance of tracking by individual vs. by institution. If we only looked at referrals for ABC Bank in total, we might conclude that relationship is working; however, Jane may not feel that way and take her referrals somewhere else.

Marc Jones with XYZ Law Firm appears to be a new target and the relationship appears to be working well with Beth Johnson. Think about what you could do to jumpstart things with Marc – try to generate a referral from among your partners or ask him if there's someone he'd like to meet for whom you could make the introduction.

Monthly: Update and Analyze Your Pipeline Report

Developing and using a sales pipeline report can help you track your progress, build accountability into business development, and increase your sales revenue. While some firms measure their new business opportunity in a sales pipeline, many lack the process to effectively use the pipeline for accountability to reach growth goals.

Depending on how your firm is organized for growth, the sales pipeline can be used for the firm as a whole, a business unit or niche team, individuals, or all of the above. The pipeline report tracks whether you have enough activity, whether you're focused on the right activities, and whether potential sales opportunities are being moved through the sales cycle. It can also be used to measure your close rate on proposals.

Creating a pipeline report doesn't have to involve some complicated system. In fact, an Excel spreadsheet with a variety of "sorts" can be very effective. Your partners and staff are familiar with Excel and won't have to learn a new system, increasing their chance of actually using the report. The following table is an example of a simple, yet effective pipeline report.

The sales pipeline can be used for the firm as a whole, a business unit or niche team, individuals, or all of the above.

Table 4: Sample Pipeline Report

Pipeline Report as of 7-30-11													
Target Company	Lead Originator	Date Originated	Last Contact	Client/ Prospect	Team	Service	Idea	Made Contact	Proposal	Won	Lost	Close Probability	Pipeline
Company 1	Partner A	7/7/2011		Client	Constr	Tax Consult	$4,000					5%	$200
Company 2	Partner B	1/15/2011	5/31/2011	Client	R/e	Cost Seg			$8,000			50%	$4,000
Company 3	Partner C	2/15/2011	6/30/2011	Prospect	Mfg	Audit				$25,000		0%	$0
Company 4	Partner D	3/31/2011		Client	Forensic	Bus Val	$5,000					10%	$500
Company 5	Partner A	6/1/2011		Prospect	R/e	Cost Seg	$8,000					5%	$400
Company 6	Partner B	1/25/2011		Client	Constr	Succesn Plng	$3,500					10%	$350
Company 7	Partner C	2/5/2011	5/5/2011	Client	Mfg	R&D Study		$25,000				25%	$6,250
Company 8	Partner D	6/15/2011		Client	R/e	Cost Seg	$8,000					5%	$400
Company 9	Partner A	4/30/2011	7/15/2011	Prospect	Mfg	Tax Cmplnc			$4,000			75%	$3,000
Company 10	Partner B	1/20/2011	5/15/2011	Prospect	Mfg	EB Audit					$5,000	0%	$0
Company 11	Partner A	4/25/2011	6/18/2011	Prospect	NFP	Audit		$15,000				25%	$3,750
Company 12	Partner A	12/15/2010	5/31/2011	Prospect	Outsrcing	Int Audit			$20,000			50%	$10,000
Total							**$28,500**	**$40,000**	**$32,000**	**$25,000**	**$5,000**		**$28,850**
Growth Goal													**$50,000**
Percent of Goal													**58%**

Let's take a closer look at the important sections:

Lead originator: Track who is generating sales opportunities so you can evaluate the effectiveness of each individual's business development activity.

Date Originated: This is the date the lead first became a sales opportunity, which can be helpful in determining sales cycle times and whether leads are actively being worked.

Client/Prospect: The pipeline report should be used to monitor sales to both repeat and prospective clients.

Team: It is helpful to know what industry niche or practice group the potential new work will be associated with so you can track how you're doing to reach your growth goals for each area.

Service: This information can be helpful during discussions of the pipeline report to determine who can help with sales efforts, as well as for tracking whether you're working a balance of opportunities.

What Gets Measured Gets Done Whitepaper

Incorporating Measurement and Accountability into your Business Development Efforts

Amount: These are rough estimates of the engagement size. Don't let difficulty in estimating the fee cause you to not use the report—it should just be a ball-park estimate of what the prospect or client might need based on initial thoughts or conversations. This amount goes in the "idea" column if you haven't had any conversations with the target yet but think this is a potential opportunity; it moves to the "made contact" column once you've started conversations and plan to follow-up; and it goes to the "proposal" column if the client/prospect is interested and has asked for a fee estimate or a formal proposal. The amount might change as you move from one stage to the next and learn more about the prospect's needs.

Use the Pipeline Report monthly in business development meetings.

Probability of close: This is also a rough estimate. At the idea stage, it probably shouldn't be any higher than 10 percent. After one or more conversations, you'll have a feel for the probability that this will eventually become closed new business—at this point it should be somewhere between 20-75 percent to stay on the report. Once a proposal or fee is submitted, the probability should be 50 percent or higher.

Won/Lost: If you've already received an answer from the client or prospect on your proposal, the amount is moved to either the won or lost column and the probability amount is changed to 0% to remove the item from the pipeline.

The pipeline amount is calculated by multiplying the value of the engagement by the probability of close. As you move opportunities from the idea phase to proposal, which increases the probability of closing, the pipeline amount will increase.

Use the Pipeline Report monthly in business development meetings. The report is a straightforward, effective tool to help you track activity, hold your team accountable, and ultimately help you reach your annual growth goals. It will likely take awhile to get your team familiar with and accustomed to using the pipeline report. But it shouldn't take long to start seeing some of the benefits. Discussing pipeline reports on a regular basis will show team members exactly what is expected of them.

Firms should consider the following questions when viewing the report:

Is there enough in the pipeline?
In order to have a reasonable chance of meeting your growth goal, your firm should target to have the equivalent of your annual growth goal in the pipeline on an ongoing basis. When you're first starting out with the report, it can take up to six months to ramp up, but your ongoing target should be the equivalent of your annual growth goal. In our example, the pipeline is currently at 58% of goal; what can we do to generate additional opportunities and/or move some of our "ideas" and "made contact" items through the sales cycle to increase the pipeline probability and amount?

Are we working both client and prospect opportunities?
When we set the growth goal at the beginning of the year, remember we identified how much would come from existing clients and how much from new clients. Sort your pipeline report by client vs. prospect opportunities and assess how you're progressing regarding each goal.

Are we moving opportunities from the idea stage to proposal?
Each month when you review the report, make sure the items that were in idea stage last month have moved forward or been removed from the report. If the same items are sitting in the idea column, this means you aren't working the sales cycle. Use the date of last contact to determine if people are doing all they can to move items forward. For example, the opportunity with Company 4 has been sitting in the idea stage for four months – is it really an opportunity? What's getting in the way of Partner D making contact with the client about it?

The pipeline report can be a useful tool to help your people decide how to spend their business development time—if you have 30 minutes one day to devote to business development, pull out the report and figure out who you can call to advance a sales opportunity through the sales cycle. Information in the pipeline report might indicate a need for training—if you're not moving targets from the "made contact" phase to proposals and closes, it might mean your firm needs help developing essential sales skills such as creating urgency, communicating value, and/or responding to sales objections.

How is our proposal win rate?

If you're not closing roughly half of your proposal opportunities, there may be something wrong. Use this information and keep it updated to make sure your people have sales closing skills and are proposing on the right opportunities.

Building Accountability

Once you have the tracking mechanisms established, it's just a matter of consistently updating them and using them. We recommend scheduling a regular monthly business development meeting. While you should encourage people to update all the tracking tools regularly, send a reminder out one week prior to each BD meeting to notify people what reports you'll be reviewing at each meeting so people have a last chance to make updates. Remember:

- ❖ Annually: set the goal
- ❖ Semi-Annually: assess billing results vs the goal
- ❖ Quarterly: review referrals in and out
- ❖ Monthly: analyze the sales pipeline

People will not enjoy reporting in front of the whole team why their sales opportunities haven't progressed, why they haven't given or received any referrals, or why their billings to existing or new clients are far from goal. In this way, you'll begin to establish accountability for business development in your firm and start enjoying improved sales results.

About The Whetstone Group, Inc.

The Whetstone Group (TWG) is a business development consulting firm that helps CPA firms grow their top line. Through a unique combination of a former national CPA firm practice leader and national firm marketing executives TWG offers strategic, yet practical advice to firms looking to hone their competitive edge. Among the services most in demand by CPA firm clients is: development of growth plans and budgets, accountability development, sales management coaching, business development training for CPA professionals, direct marketing and telephone lead generation. Founded in 2000, the firm is located in Marion, Iowa and serves CPA firms throughout North America.

For more information visit our website at
www.thewhetstonegroup.com
or call us at 319.447.6400.