PERSPECTIVES ON PRACTICE MANAGEMENT

Is Your Firm a Book-of-Business Firm?

Strategies for Being (and not being) a Book-of-Business Firm

By Allan Koltin

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Q: Why is book of business such a widely talked about topic in CPA firms and what are some of the myths that go with it?

A: Simply stated, "book of business" is the security blanket that most client service partners live or die by. Interestingly, the greatest myth that exists is that many firms believe they are not run as book-of-business firms when, in fact, book of business is a major component of most partners' compensation in those firms.

Q: Why do you think this myth exists?

A: I think it begins with a proper definition of what "book of business" is all about. Quite candidly, there are certain partners within a firm that should be paid as book-of-business partners, because managing client service and relationships is what they do best. Essentially I believe there are three key components that go with any book of business. They are the following:

1. Originating partner (the "finder")
2. Relationship partner (the "minder")
3. Service partner (the "grinder")

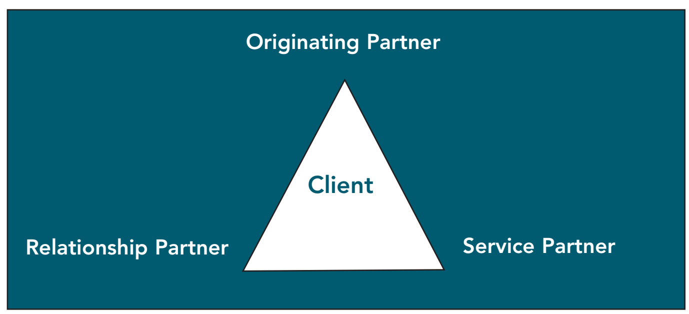
All too often, we take a one-size-fits-all approach to book of business and don't analyze it enough based on partners' strengths and weaknesses. For example, if a partner has great skills in bringing in business, but is not as good at keeping relationships or servicing clients, they should primarily be focused toward a business origination book of business. Similarly, if a partner is very good at building relationships with clients and handling high-level issues with the client (we call this the surgery), their goal should be to grow the client relationship and maintain client satisfaction. Last, if you have a partner who is good at neither originating business nor building high-level relationships with the CEO/owner, their goal should be to have a high level of production (billable time at high realization) work within their book.

Q: Are you suggesting that there should be three separate books of business or measurement criteria within the firm?

A: Absolutely! I believe that this is one of the biggest impediments in dealing with this issue. They don't dissect the concept of "book of business" into these three performance pockets and essentially treat them as one.

Q: Are there any responsibilities or obligations that should go with any of these three books of business?

A: Yes, I believe that especially the relationship partner needs to be proactive with the client in terms of major issues or challenges that the client has. I also believe that they need to be proactive in identifying other firm services and cross sell them when appropriate to the client. They also should have the ultimate responsibility for client satisfaction and profitability on the account. (This would include billing, collection, realization, etc.)



Q: How would you then differentiate these goals from that of a service partner?

A: Clearly the service partner should have some of the same responsibilities and goals as the relationship partner. However, quite candidly, the service partner is typically deeply involved in the forest — setting budgets, monitoring engagements, handling day-to-day technical and staffing issues — and should be more focused on the engagement or project at hand. I also believe that the relationship partner has to be the one who says, "The buck stops here." He or she needs to be the one ultimately losing sleep at night and ensuring that the client's needs are being met on a day-to-day basis.

Q: Is there anything else that any of these partners should concern themselves with?

A: Yes. The biggest issue is answering the biggest question of all, which is "Will this client stay with us once any of these partners retire or leave the firm?" Ultimately, for a client to have long-term value there needs to be backup and proper training in terms of developing the future partners to handle the account. All too often I see partner compensation schemes that work against this concept and cause the partner to hoard clients almost until their date of retirement.

Q: What can be done to prevent this from happening?

A: Well, it all starts with a proper succession plan whereby partners do what is best for the firm and work diligently to introduce others into the client relationship. It may sound basic, but you would be amazed at how many high-level meetings with clients take place with individual partners with no thought as to who else should attend and be involved in the issues.

Q: What other issues typically confuse book of business and/or its relationship with partner compensation?

A: There is one issue that comes to mind and it is rather prevalent. Let me phrase it as a question: "Who would be more valuable to a firm? Partner A who self-developed $500,000 of new business or Partner B who inherited a $750,000 book of business from a retiring partner?" I find that all too often too many client service partners forget "who fed them in the past" and oftentimes are critical of partners with lower books of business (even though they didn't develop one themselves). I also believe that one of the reasons that some of the best skilled rainmakers in the firm end up with poor rainmaking results is due to trust or security issues. They continue to operate essentially as a relationship and/or service partner as a way to "beat the formula" when it comes time for partner compensation. Recently I worked with a top-producing partner who had both a $4M originating book of business and a $4M service book of business with close to 2,000 billable hours. It wasn't hard to figure out what the partner had to do here in terms of freeing up time to get back to bringing in business. Only after repeated assurances from the Executive Committee did the partner begin to transfer the service book and corresponding billable time to other partners who were glad to pick up the work. Also, this person's new business origination went up dramatically the year after much of this transfer took place.

Q: I hear many different thoughts on whether a Managing Partner should maintain a book of business or not. Any thoughts on this?

A: Well, clearly firm size and goals dictate what the managing partner should do here. At one extreme, if you have a managing partner who loves bringing in business and servicing clients and doesn't want to give up their book of business, they need to be sure they have surrounded themselves with high-level management and administration to essentially run the firm. On the other end, as firms get bigger (typically $10M in fees and greater) the managing partner needs to make a major commitment to shedding their book of business and truly treating the firm as their #1 client. I recently worked with a firm in which the managing partner did an excellent job of essentially transferring all of the clients only to find out that they were no longer going to be managing partner. This is probably a discussion for another day, but I do believe firms need to do a better job of guaranteeing managing partners that, if they do what is best for the firm and they are no longer managing partner, they will be compensated at their current level for a couple of years as they try to rebuild their book of business.

Q: Is there anything else that top-performing firms do to deal with this issue?

A: Yes. They review partner performance in these three tracks every year and not only set goals for the upcoming year, but also tie these goals to the firm's strategic plan. My most valuable partners are those who can "bring it in and feed others," and who are also adaptable and are willing to "recreate" themselves every year for the greater good of the firm.

Editor's note: If you have any questions about this article, or any other issues facing your firm, please feel free to e-mail them to AKoltin@pdiglobal.com and Marsha.Leest@WoltersKluwer.com.

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