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Lessons from the Great Recession

Understanding the Great Recession

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The Recession and its Impact on Clients

It's tough out there. According to the New Jersey Department of Labor and Workforce Development, in September 2009 employment in seven of 10 private industry sectors declined, two recorded gains and one was unchanged. The largest over-the-month losses occurred in construction (4,000 jobs); other services (4,000); professional and business services (2,600); trade, transportation and utilities (2,200); and education and health services (1,000). The only industry sectors to add jobs over the month were financial activities (1,200); and leisure and hospitality (1,000).



By Joseph A. Tarasco
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Very few companies have avoided the downturn, and that weakness is flowing through to accounting firms. Here's how partners at several CPA firms are coping with these difficult times and the impact on client relations:

Staying in Touch

The need for regular, proactive client contact during the recession is a must.

Tracey B. Early, CPA, Managing Partner at Untracht Early LLC in Florham Park, believes it's critical to avoid taking clients' business for granted. "We used to be order takers, where the jobs just kept coming in," she says. "Clients today are looking for attention, especially if they're having

problems. You need to return phone calls immediately and pay attention to their needs."

"We are reacting to changes in the economy by reaching out more to our clients, increasing our relationships and also working on increasing networking relationships," says Barry Snyder, CPA, Managing Partner at Klatzkin & Company, LLP, in Hamilton. By staying aware of clients' circumstances, a firm can focus its services on what clients need most. "We're working with clients a lot more on cost cutting and helping them obtain financing," Snyder says. "We were doing that before, but we're doing much more of it now because clients are in survival mode; they're not in growth mode at this point."

Adding Value

Brian Flynn, CPA, Partner at O'Connor, Davies, Munns & Dobbins LLP, in Paramus, also says many clients are interested in cost-control services.

"We're allocating more of our special service resources to forensic specialists, employee benefit specialists and so forth. This would be the case, for example, in a situation where the client is seeking a more cost-effective benefit plan."

There is a challenge to offering additional services during a recession, however. Clients don't want fee increases from their CPAs. Early has found that some clients are saying that they don't want a fee increase this year, while others have been requesting fee reductions. Consequently, Untracht

Early is closely monitoring its fees. “We’ve put some new software in place that will help us be more efficient on the audits,” she says. “That’s helped a lot. Overall, you have to be conscientious.”

Flynn echoes that sentiment. He says that his firm is more cognizant of fees when they’re preparing engagement letters for the upcoming year. There’s also a competitive consideration. Increasing fees exposes a firm to discounted offers from competing firms, even if the current firm and client have a long-term relationship. Early cites

increased competition, as well. “Many times, when we used to go out for a job, if we were referred by somebody we would be the only firm going in the door,” she says. “Now, I’m finding the

prospective client may be interviewing five other firms as well, which is unusual.”

Controlling Risks

Recessions also increase the risk of providing audit and financial reporting services. Snyder points

to the going concern attestation as an example. “When you’re doing your financial reports, you have to test the assumption that the client will continue as an ongoing business,” he says. “If they’re showing losses and have bank financing coming up for renewal, and the banks aren’t lending as much, it puts additional stress on us to conclude that they will continue to have the finances needed to continue a business.”

Some clients can pose unique risks. For example, many of Untracht Early’s clients are financial services firms and hedge funds. Early

reports that investment valuation was an issue during the past year, because determining the value of complex securities or a private equity fund’s holdings requires careful evaluation. “You have to understand the instruments you’re looking at,” she says. “There’s risk out there and fraud. You have to make sure what you’re looking at is real and exists.”

Staying on Track

The recession has slowed the fee collection cycle, and that’s leading to changes in billing practices. At Early’s

firm, more frequent billing generates smaller bills that clients find more manageable. Flynn says that his firm is spending more time tracking and analyzing receivables and is striving to keep its work-in-process under control.

Hiring plans have also been affected, although less than might be expected. O’Connor, Davies, Munns & Dobbins reduced its planned hires for New Jersey from four last year to three this year. Early’s firm has continued to hire four or five first-year people each year and is also seeking upper-level talent. “We’re getting some great opportunities because many big firms had layoffs,” says Early. “There’s a lot more quality talent out there.”

Looking Ahead

The recession is showing signs of ending, and that raises the question of what CPA firms should expect from their clients when the economy recovers.

Early anticipates better informed clients who will expect more from their CPAs. Instead of just requesting a service, she says, clients will want ongoing advice. Flynn believes that clients will be much more cautious about committing their resources and will continue to monitor expenses closely. “I think clients will leverage everything they have to get the most of it, especially with technology,” he says. “That also applies to audit fees, which will require us to continue looking at new ways of partnering with our clients.”

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