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If you asked the president of a Fortune 500 company or the owner of a small business to define profitability, a quick and easy response would follow. Not so with CPA firms. One would think that the undisputed champions of measuring financial data – CPAs – would be capable of defining their own firms' profitability. Not by a longshot.

Here are several keys to profitability that typical, local firms often overlook.

Overreliance on partner income *percentage* as a measure of profitability. Firms are much better off measuring profitability by income per equity partner. Here's why.

Partner income *percentage* is impacted much more by staff-partner ratio than by innate profitability. Many partners have a rule of thumb that 33% is an acceptable partner income percentage, and that to be truly profitable, 40% or more should be the target. But data from *The Rosenberg Survey* refutes this. Firms in our survey with a staff-partner ratio in excess of 8:1 earned $491,000, yet posted a partner income percentage of "only" 23%. Firms with staff-partner ratios under 4:1 earned $260,000 per partner while posting a 39% partner income percentage. It's pretty clear which group is more profitable, despite the former's 23% partner income percentage to the latter's 39%.

Never be content with "average"

Remember, when a MAP survey cites an average metric, it's just that – an average. To illustrate, let's examine annual billable hours for staff. If the national average is 1,530 and you're firm is at 1,530, you have little cause for celebration because your

force discounted billings. Realization rates in the mid to upper 80s is where most firms should be.

Short-term vs. long-term thinking

The most recent Rosenberg MAP Survey showed average income per partner of $392,000. If firms were only interested in maximizing short-term profits, this figure would probably be in the $450,000 to $500,000 range. Maximizing short-term profits to the detriment of long-term success is tempting but misguided. Here are some things firms do to maximize short-term profits: (a) partners doing staff level work and working high billable hours, (b) little investment in their people by underpaying staff and failing to invest in training and mentoring, (c) making do with archaic technology and (d) low spending levels on marketing. Smart firms understand that investing in the firm today yields increased profits tomorrow.

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