2012 EXECUTIVE PREDICTIONS & 2011 YEAR IN REVIEW

Back to the Future for Firms: 2012 … and Beyond

From a financial perspective, 2011 was a more stable year for firms than 2010. Even though firms are reporting flat revenues or small growth over their results in 2010 (when we saw about the same story), they are maintaining acceptable bottom lines through continued cost cutting, better management of their service delivery processes and more time spent with their clients. It's quite a different story for their clients. Small business America is still wrestling with the effects of the recession and "stuck in neutral" in terms of making both basic and strategic decisions. Uncertainty in critical areas such as health care, business and personal taxes, hiring incentives and credit availability all add complexity to the most basic of businesses. There is no question that as 2012 unfolds, the 29 million small businesses in America will need their CPAs even more to help them navigate their way to more stable economic times and then to growth opportunities.

WHAT ARE THE TOP ISSUES?

The 2011 AICPA PCPS CPA Firm Top Issues Survey revealed a number of interesting factors that will have an impact deep into 2012 and beyond. For decades, the survey found that the top issue for CPA firms was staff recruiting and retention. Then in 2009, those concerns went off the radar, and client retention moved to the forefront as a top issue. In 2011, obtaining new clients replaced client retention as a top priority for firms. After many years of a flourishing market, CPAs are now back out developing new business both from new clients and by adding services for existing clients. Among larger firms, a new factor appeared at the top of the list for the first time: partner accountability. Gone are times when partners could rest on the business they brought in many years ago and manage their own portfolio of clients inconsistent with the rest of the firm. Small firms, on the other hand, continued to wrestle with tax law complexity and implementation of complicated standards. As we move into 2012, the AICPA initiative on private company financial reporting gives small firms and their clients genuine hope of change to a more relevant and useful set of accounting principles for private companies.

A more detailed review, commentary and implementation tools for the 2011 AICPA PCPS CPA Firm Top Issues Survey can be found at aicpa.org/InterestAreas/PrivateCompaniesPracticeSection/Resources/FirmStrategyandPlanning/Pages/PCPS%20Top%20Issues%20Survey.aspx.

WHAT'S NEXT?

Enough about history. Let's take a look at what will happen in 2012 and beyond and what firms should be doing to plot their future. The year 2012 is probably the most important one for firm strategic planning in many decades. We are at a point where we have done all the cost cutting that's possible, but the marketplace continues to be in flux and will never return to where it was in the days before the recession. In order for practitioners to maintain an acceptable bottom line and long-term strength, there is no question that they must take a hard look at their marketplace, their clients, their skills, their services offerings and their technology, and integrate all of them and more into their firms' business plan. In 2012, creating a business plan will demand more rigor than we usually see at the annual offsite retreat. Substantial analysis and research are necessary to enable firms to make the best investments of their resources in the right places.

As firms examine the marketplace, they will have to consider a number of new developments since the recession. They will have to take a hard look at the industries they serve and could serve and determine not only which ones are growing but also which ones are dying. We know, for example, that for many years to come, anything related to healthcare will have very robust prospects. That includes not just medical practices and hospitals but also related businesses, such as medical supplies, medical transportation, nursing facilities and the like. In contrast, firms with client concentrations in industries that represent old school manufacturing in some of the rust belt cities will find that these once flourishing businesses are never to return to what they were. Another marketplace consideration is location. The reality is that there are cities and states with robust business climates and there are faltering ones. Today's technologies make it easy for small local firms to work on a national and international basis no matter where they are located. In tough locales around the country, firms that have flourished are the ones that faced this reality and targeted prospective clients that may reside in the local market but do business throughout the United States and the world. Another marketplace consideration is the aging client base and its implications. Practitioners who are expecting to transition firm ownership to the next generation of leaders or to sell or merge the practice will find themselves in a fragile state if the majority of their clients are owners who are well along in age without their own internal succession plans.

As firms look at their current skills, service offerings and even at their functioning owners and partners, there is one foundational tenet that will be even more foundational in 2012. It is that the strength and depth of the client relationship is the driver of firm success. The firms that will demonstrate the most value in 2012 are those that invest in the skills that enable them to "connect" with clients and prospective clients and go deep in understanding their pain points and their potential opportunities. This is the core driver of what the firm's services and skills need to be. The most successful firms for 2012 and beyond will be those that integrate that into their culture.

More information for planning for your firm's future can be found at: aicpa.org/Research/CPAHorizons2025/Pages/CPAHorizonsReport.aspx

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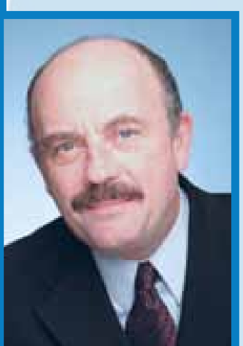

Jim leads AICPA initiatives aimed at serving the needs of practitioners, including the activities of the Private Companies Practice Section. He serves as an advocate for small firms on standard-setting, legislative matters, practice issues and as liaison between the AICPA and its member firms. Jim reports to Barry Melancon and works with him on a multitude of professional issues.

Jim has spent more than 40 years working with small firms. Prior to joining the AICPA, he was a co-founder of ConvergenceCoaching, LLC, a national consulting firm dedicated to helping CPAs prosper by assisting them to develop and implement success plans. Jim spent 32 years in public accounting, as a partner with Gaines Metzler Kriner & Company, LLP, a local firm in Buffalo, New York. He was also founder of GEMKO Information Group, Inc., a successful technology consulting organization. He is a frequent lecturer for the AICPA, State Societies and global CPA professional associations.

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