

5 levers of growth

- what one KPI has the biggest impact on your firm's growth?



This headline prompts 2 questions:

1. Grow what exactly?
2. What are the 5 levers?

Before we get to the 5 levers of growth here's some **possible growth measures** and their natural drawbacks:

- **Fee growth** and **gross recurring fee growth** can result in you adding clients that are less than profitable or do not suit the way your firm works.
- **EBITDA** monthly, quarterly or annually can derail investment in the longer-term future of your firm as it may prevent you investing in team training or marketing or new technology.
- **Recovery rate** and **chargeable time** has you looking at existing work and not looking for cross-sales or ways of building greater client loyalty.
- **Net promoter score** can drive you to higher and higher client care but reduce your profitability and cash resources.
- **Fees per full time employee equivalent** can make you reluctant to hire new people and limit future growth.

Your choice is important. Your choice of growth metric influences the decisions and actions across your firm...

"What gets measured, gets managed, gets better" suggested Peter Drucker.

To drive right-thinking, right decision-making and right-action it's important to focus on the right growth measure, and only then apply the 5 levers of growth.

But which measure?

A blend and a balance maybe?

Because of the natural drawbacks each individual growth measure has, most leaders accept that we need a blend and a balance of KPIs.

What Dr. Robert Kaplan called a *balanced scorecard*. A blend and a balance of KPIs ensure several important elements get measured, managed and improved.

Or go for focus?

A blend and a balance of KPIs is healthy but dilutes your focus.

In this report we're going for a focus on the one growth KPI that can be communicated with everyone (It's not sensitive like EBITDA can be), it seems to get team-wide support, has individuals recognising themselves in the number, helps everyone appreciate the commerciality of their work and means everyone can see multiple ways of improving the number.

Fees Per Full Time Employee Equivalent – has your firm's **revenue** and your firm's main **cost** show up in the same number.

Grow this number and the chances are you'll improve the profitability of your firm – that's what we see across the accountancy firms we work with.

This report is focused on improving this single KPI – **Fees Per Full Time Employee Equivalent** (fees per FTEE).

Easy to work out...

...your firm's total fees divided by the number of full-time equivalent employees (all team members not just 'so-called' productive team).

For example, 20 full-timers plus 4 part-timers doing 3 days a week and total fees of £1.8million would give you a fees per FTEE of £80,357¹.

It's also easy to work out fees per FTEE by team, department and office location. This can give you a reference point for improvement in each team, each department and office location.

NB We also like to look at your people costs as a percentage of total fees. When both these numbers improve your firm's profitability will improve.²

Two calculations:

1. **What's your firm's fees per FTEE now?**
2. **What's do you want your firm's fees per FTEE to be in 2, 3 or 5 years time?**

With these two calculations you have a gap you need to work on.

These two calculations also help you see that your fees per FTEE now matters much less than what you're going to do to improve the number!

It is what it is now.

But you and your team can improve it – using the 5 levers below.

IMPORTANT: Every style of firm has a different scale of number, every firm is unique, and every firm can improve their fees per FTEE. For example, a tax advisory specialist might have fees per FTEE of £140,000. A general practice with a focus on lots of low-value jobs might have fees per FTEE £70,000. And because of the very different mix of team members and their salaries both firms may be equally profitable.

Your number now does not matter.

Improving your number does matter. Use the 5 levers of growth to help you.

Before we get to the 5 levers of growth for your firm's fees per FTEE consider short versus longer term thinking here.

¹ $4PT \times 3 \text{ days} = 12\text{days}$; $12\text{days}/5 \text{ days} = 2.4$; Full time equivalent employees is $20 + 2.4 = 22.4$; $£1.8m / 22.4 = £80,357 \text{ fees per FTEE}$

² However useful a single KPI may be, using 1 KPI in isolation is an unhealthy approach to leading and managing a firm. Just as eating just one foodstuff (Broccoli? Or if you prefer Sausages?) and no other foods, would result in the demise of your bodily health over time. Which is why when we work with firms on their firm's 5 year or 10 year vision we encourage a blend of 3, 4 or 5 KPIs not 1. However, in this report we wish to focus on this single growth KPI because whatever your fees per FTEE you can improve your number.

Longer-term strategic health perspective

Improving fees per full time employee equivalent can be easily achieved in the short term by reducing the number of team members.

However, this could easily be a short-term fix **AND** a longer term fiasco.

Longer term this may well reduce client care, reduce your ability to get work out on time, reduce your capacity for growth, stress out your remaining team members and generally undermine the strategic health of your firm. All your firm's decisions should be made within a strategic health framework to ensure the sustainable success of your firm³.

The 1% effect...

In this report we focus on fees per FTEE and so want to unpack the 5 levers of growth you can use in your firm.

The 5 levers of growth are:

1. Price/value
2. Efficiency
3. Team engagement
4. Client selection/deselection
5. Service offering

What about inflation?

Let's assume you're already committed to price-matching inflation every year for every client, to ensure your pricing process protects your margin in real money every year.

How do you then make improvements that then grow your fees per FTEE, increase profitability and increase the strategic health (and profitability) of your firm?

A 1% improvement from each of the 5 levers could deliver a 5% improvement in fees per FTEE every year above the rate of inflation if you take them seriously enough. Invest energy, effort and diary time in 1 of the 5 levers every year for 13 weeks and you'll get 4% of the 5% increase each year.

Run the numbers...

By way of example, let's say your fees per FTEE is £92,000.

If we assume 4% inflation and you manage to get 1% improvement across 4 of the 5 levers every year for the next 5 years where could your fees per FTEE get to? Ignoring the compounding effect of each year's improvement (because the maths is simpler) that's 8% per year. That would get you from £92,000 to £135,000 per FTEE⁴ in 5 years time.

What about new clients and client care?

Yes, both are vital for sustainable growth.

New client acquisition is another serious and important growth lever. However it does not necessarily impact on fees per FTEE over time because if everything remains the same in the way your firm works, you'll end up needing more people to do the new work you win. And as a result, fees per FTEE remains the same. However, growth lever *4.Client selection/deselection* does help improve the way your new client acquisition grows your fees per FTEE as does the work you do on growth lever *1.Price/value*. If your new client acquisition activities remain the same **AND** you add in the work on the 5 levers of growth you'll get a multiplier effect added to your fees per FTEE growth.

³ If you want to assess your firm's strategic health why not take the strategic health diagnostic at this link – it will ask a series of questions that will signpost how you improve your firm's strategic health and secure a bright and sustainable future for your firm

⁴ £92,000 x 1.08 repeated for 5 years results in £135,178 of fees per FTEE (this ignores the compounding effect of the 8%pa – to keep the maths simple)

Client care is another vital growth lever because it secures existing clients, prompts them to recommend you, has them willing to pay higher fees and also results in them buying more from you more often. Client care **directly** shows up in 4 of the 5 levers of growth. Growth lever 2. *Efficiency* is also relevant to client care **indirectly** because more efficient working practices frees up time to invest in better client care.

Set yourself a longer-term fees per FTEE goal

If you had a stab at the two calculations from earlier:

1. **What's your firm's fees per FTEE now?**
2. **What do you want your firm's fees per FTEE to be in 5 years time?**

With these two calculations you have a gap you need to work on (plus the inflationary improvements which we'll ignore and treat the numbers below as 'index linked'). Because we've opted for a 5 year view we're taking the long view in the interests of your firm's strategic health.

The following insights provide signposts for the ways and means of using the 5 levers of fees per FTEE growth.

Answer the **12** questions and you give yourself a score out of **120**. The lower the score the greater the opportunity you and your team have of achieving some great improvements for your firm.

Let's get going...

1. Pricing & Value lever

- 1a. Pricing Process** – No matter how good your firm is at pricing, your pricing processes can always be improved. By how much, you decide.

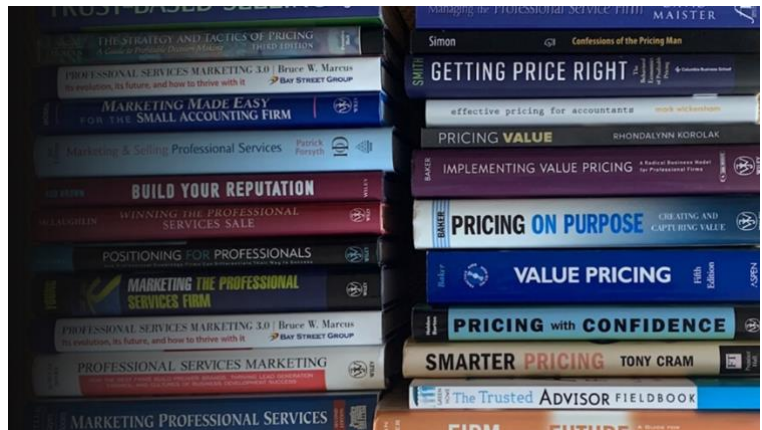
When done well pricing processes improve client loyalty and trust; encourage recommendations/referrals; create cross-selling opportunities; and predispose clients to pay more because they value what you do for them more. Few firms revisit, review and refine pricing processes often enough.

Have you extracted all the best-practice strategies from all the experts who have invested chunks of their lives sharing what works on pricing and pricing conversations?

Here's a selection of our source material for pricing.

We revisit this topic regularly, every year, to see if we can improve, learn more and share more with the firms we work with.

Because pricing improvements have the biggest impact on profitability it's something all business leaders should be improving every year.



How well are you making the most of best practice in the world of pricing...

(Scale: 1 is bad – 10 is world-beating)...

QUESTION 1: On a scale of 1 to 10 how good is your firm at using all the pricing best practices to help you regularly improve pricing processes for your clients and prospects?

- 1b. Value Process** – In our experience, if there's an area where every accountancy firm can improve, it's better demonstrating and communicating the value of what you do for and with clients.

Functional value: Helping your clients improve their financial processes, reporting processes, cash collection and payment processes, pricing processes, gross-margin protection processes, and many other functional processes delivers a high value proposition for clients. What's all this worth?

Financial value: Despite the obvious knowledge and skills in this area, accountants often fail to measure or communicate or demonstrate financial value to clients and prospects. The work you do on payroll or bookkeeping has a cost but also has a saving in time, salaries, hassle and stress. The work you do on accounts and management accounts can and should help better decision-making by your business owner clients if only you prepared the reports to help the decision-making process rather than simply meeting the compliance obligations of Companies House and the Inland Revenue. And clearly the tax management within the legal framework has value in the way you protect your client from hassle and investigation. What's all this worth?

Emotional value: As you can see in the functional and financial value sections above there's stress-relieving, hassle-removing, reassurance building and business protection elements in all the services you provide – not just a tangible service offering. However most firms fail to communicate these 3 value payoffs clearly in a way that demonstrates real value in the work you do.

QUESTION 2: On a scale of 1 to 10 how good is your firm at understanding what matters most to clients and then creating, communicating and demonstrating the emotional, functional and financial value of what you do?

2. Efficiency lever

2a. Cadence of completion – Whether you're focused on SA tax returns, corporation tax returns, P11Ds, annual accounts or management accounts, pay roll, bookkeeping, audit, basically whatever service you want to consider – your cadence of completion will either drive up or drive down your fees per full time employee.

For example, the annual deadline for annual accounts and for SA tax returns focuses the mind and energy and commitment the closer you get to the deadline. Something all firms know oh so well.

Another example. Firms who have a quarterly reporting cadence on billings will see a spike of job completion and invoicing in the last 2-3 weeks of the quarter (and try to slip a few invoices in after the quarter end!).

Our experience of working with accountancy firms (over 2 decades) shows that those firms who embrace a **weekly cadence of completion** transform the value of work their existing team can process. Same team, more work, more fees, less stress. As a consequence the fees per FTEE of these firms increases and so does their bottom line profitability. **IMPORTANT:** This process delivers something significantly greater than a 1% improvement in fees per FTEE.

QUESTION 3: On a scale of 1 to 10 how good is your firm at completing jobs to the agreed volume/value needed every week?

NB It is this process that helps tax teams avoid the December and January tsunami of SA tax returns. The same process that helps accounts teams avoid the 8-9 month filing deadline panic on all their March year ends. The same process brings a focus to audit jobs, reduces WIP and improves recovery rates across the firm.

2b. Lean management – The evidence from the science of lean management show there are 7 wastes that you can reduce across your firm. Each one could probably deliver you a 1% fees per FTEE improvement every year! The examples are far from an exhaustive list, you can add more examples we're sure.

The 7 wastes you can work on are:

1. **Unnecessary Waiting Waste** – waiting for colleagues; waiting for client responses
2. **Over-Production Waste** – overworking a job; wrong level person
3. **Transportation Waste** – driving; paper trails;
4. **Processing Waste** – pick up put down; poor job planning; poor diary planning

5. **Inventory Waste** – too many jobs started not finished
6. **Motion Waste** – too many steps/job stages; hunting for information
7. **Defect Waste** – repeating mistakes/review points; rework

For a detailed breakdown on the 7 wastes please go to the Business Breakthrough report in the online resources⁵ – they are a great discussion piece for getting your team involved in improving things.

QUESTION 4: On a scale of 1 to 10 how good is your firm at revisiting the 7 lean-management wastes each year to seek out new ways to improve the efficiency of your production workflow?

3. Client selection/deselection lever

3a. Selection & deselection criteria – Many firms have different client categories...

QUESTION 5: On a scale of 1 to 10 how clear are you on what criteria determines whether a client is a good fit or a bad fit with your firm?

3b. Client deselection criteria – You're proud to work with lots of your existing clients. Some clients aren't so appealing to you or your team for all sorts of reasons...

QUESTION 6: On a scale of 1 to 10 how good are you and your client manager team at filtering out the ill-fitting clients and helping them work with your competition?

3c. Client selection criteria – Every prospective client does not suit your firm – some do, some do not...

QUESTION 7: On a scale of 1 to 10 how good are you and your client manager team at saying no to ill-fitting prospective clients?

4. Service offering lever

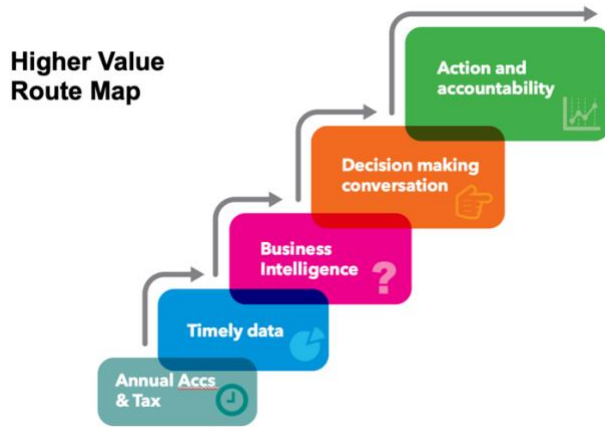
4a. Next best service for every client every year – Your firm may well have 30 or 40 or 50 different service offerings your clients can buy from you...

QUESTION 8: On a scale of 1 to 10 how good are you and your client-manager team at discussing the next most-relevant service for every client, every year, in a systematic, disciplined and caring way?

4b. Higher value route map categories – Many firm leaders and managers talk about value-added services...

QUESTION 9: On a scale of 1 to 10 how good are you and your leadership team at discussing and helping every one of your existing clients consider higher value services from your firm every year?

⁵ <https://businessbreakthrough.online/report/profit-from-lean-management-in-your-firm/?loc=rpl>



The 5 steps of this higher value route map provide a framework around which you can attach different services you already provide.

The framework also provides a great talking point with your team and clients.

5. Team engagement lever

5a. Team engagement progress – Lots of research all over the world points to the direct correlation between improved team engagement and improved performance and results...

QUESTION 10: On a scale of 1 to 10 how good are you and your management team at improving your team's level of enthusiasm and engagement every week/month/year across your firm?

5b. Knowledge, skills and habits – The evidence from Gallup research and others point to the importance of 'manager knowledge and skills' as being critical in building team engagement...

QUESTION 11: On a scale of 1 to 10 how good is your firm at investing in and improving the knowledge and skills that help your managers be better managers with better human engagement skills?

5c. Strategic health – A clear, well-communicated and committed core purpose, values and vision that drive committed quarterly strategic action can profoundly improve team engagement...

QUESTION 12: On a scale of 1 to 10 how good are you and your leadership team at building clarity, commitment and enthusiasm for your firm's strategic plan?

12 questions and a maximum score of 120 – how did you score?

The gap between your score and 120 is the opportunity you and your firm have to improve your firm's fees per FTEE.

Apply the strategic health framework of 8 questions AND work on building the fees per FTEE in your firm to realise the ambitious **business vision** for your firm (Strategic Health Question 2). Use strategic health question 8 – **without-fail quarterly OKRs** – to help you make it all happen.

ACTION: If you're interested in getting your hands on the 8 questions of strategic health in the book **Your Firm's Future?** – please email theteam@remarkablepractice.com asking for advanced details about the book (published June 2024).