

Imparting Small-Business Services Enhancements

The right advisor can mean the world to a small-business owner. Here's how firms are expanding varied services to these prized clients.

(Jan. 1, 2009)



By Jeff Stimpson



"Small-business owners usually wear multiple hats. The lack of management infrastructure means they require a trusted advisor sensitive to and knowledgeable regarding their varied business needs. Marketing in this environment is often subtle because the focus is on the relationship and addressing their challenges, not selling packaged services," says tax partner Tom Forbes of Sacramento, Calif.-based Macias Gini & O'Connell.

Sean Haggard, tax specialist with Abrams Little-Gill Loberfeld (ALL), Chestnut Hill, Mass., adds, "They expect their trusted advisors to educate, offer solutions to their most pressing issues, suggest cost- and time-saving opportunities, and provide growth related strategies."

Expanding services and advising small-business owners on many of their business purchases remains the best bread-and-butter for many firms. "We like to be the first people clients call with questions about their financial well-being," says Steven Wouch, managing partner with Wouch, Maloney & Co., Horsham, Pa. "We have helped clients transition businesses from one generation to another, find outside employees, and negotiate contract terms, and have helped them through difficult financial and emotional times.

Appealing to the Client Base

The Entrepreneurial Advisory Services (EAS) group at Houston-based PKF Texas offers tax, financial reporting, and consulting services, frequently bundled together, to some 60 clients with revenue of \$6 million to \$100 million, according to Byron Herbert, director of the group. One client's testimonial claims Herbert saved a client \$100,000 with one visit. Another client, an industrial-elevator manufacturer, saw profits shoot from \$400,000 to \$2 million. "It's not unusual to find a four-to-five percent improvement," Herbert reports, adding that most small-business owners and small companies find it hard, if not impossible, to look objectively enough at processes and the bottom line to produce such results themselves.

In addition to traditional accounting and tax compliance, the entrepreneurial services department of SS&G Financial Services, Cleveland, offers accounting assistance, outsourced services, business consulting, budgeting/forecasting, strategic planning, litigation consulting and support, HR and IT services, wealth management, and employee benefits, according to Kimberly Zagar, associate director of the department.

Phillip Sroka, partner with Miami-based Morrison, Brown, Argiz and Farra, which services some 2,500 small-business clients in its tax and accounting services department, notes some ways that his firm helps small-business owners:

- In the formation of the entity and the choice of the correct type of entity for the business, taking into consideration the type of business, ownership flexibility, tax ramifications, and family issues.
- In hiring of employees. "Sometimes we even function in the controllership role while the company has temporary needs or is in the growing stages," he says.
- Provide referrals for services such as attorney, banker, insurance agent, investment advisor, retirement-plan consultant, and payroll service provider.
- Review internal operations and controls for inefficiencies and segregation of duties.
- Act as consultant in numerous areas such as lease-versus-buy decisions, HR, financing options, and budgeting.
- Provide tax, estate, and succession planning.

Sroka says marketing to these clients often means targeting the owner, as opposed to the controller or CFO in larger organizations. "In addition," he adds, "in larger organizations compliance-type work is a major reason for being hired. All small businesses have compliance-type services to be performed, such as income tax returns, and some may require financial statements for internal or external purposes, but it's the additional services that are usually the main factors in the small-business owner's decision."

"Marketing to them isn't hard. The secret is service," says Wouch. Communications with them are essential, he adds, as is tax planning. Says managing partner Dick Jergenson of Minneapolis-based Hansen, Jergenson, Nergaard & Co., which provides such services as dealing with personnel/HR issues, positioning the company for better credit, and leasing and other issues to some 350 small businesses, "In addition to our referral sources and our community contacts which generate new business, we send a bi-monthly newsletter to about 7,000 small businesses. We receive one or two calls per month just from our newsletter mailing list. I think the businesses receiving our newsletter see that we're familiar with the issues they're facing and call us if their current CPA isn't responsive to their needs." He adds that HJN uses the newsletter to address subjects like "How Financial Analysis Can Help Your Business," or "Doing Business In An Economic Slowdown."

ALL reaches small businesses with bi-monthly informative electronic newsletters, and tax update seminars co-hosted with investment advisors offering market updates and advice. "We also pay 'well visits' to our small-business clients' places of business to keep us in tune with their changing needs," says Haggard. "These services are used to prime the pump, initiate dialogue, and let business owners know that our expertise is available."

Herbert reports that his group gets many referrals from such sources as venture capitalists, banks, and private equity firms. "We don't talk a lot about the accounting" with prospects for these services, he notes. "We talk about how we can help them take their business to the next level, help them train emerging groups of managers, help them think more strategically." PKF employs a methodology, for instance, geared toward training managers, and Herbert also helps clients plan retreats.

Expanding Services

Forbes says his firm is expanding services to these clients, particularly in southern California with three practice offices. "A good trusted tax advisor works very closely with the small-business owner to help best manage at least 40 percent of the owner's annual earnings, considering that the top federal and state combined effective rates are approximately 40 percent," he says. "When annual property taxes, sales and use, and other taxes are considered, the annual marginal effective rates may well be north of 50 percent. Under the new incoming administration, these tax rates may very well be even higher."

Says Wouch, "We offer a service that benefits clients who are becoming more senior, by organizing all of their estate and planning documents, key advisors, and corporate documents in one place. We give them a book with all the documents in it, and burn a CD for them, too. We keep a copy, and update it annually. That

way, if something happens, the responsible parties will only need to look in one place for everything."

"We're increasing our focus on small-business multi-state income and sales-tax compliance services," says Haggard. "States are being much more aggressive about compelling small-business clients to file sales and income tax reports for the slightest contacts within their state. A new small-biz client came to us recently with an out-of-state notice informing them that the state believed their company should have filed income tax returns in that state in prior years. Another new client's business model resulted in their company establishing unwanted sales tax nexus and reporting requirements in multiple states in prior years, which their former CPA failed to recognize or advise them on.

"We have seen a marked increase in the number of 'nexus questionnaires' issued by states trolling for revenue," Haggard adds. "We're alerting clients and sharing this information. Mandatory compliance issues involving complex sales-tax issues have been on the rise as our increasingly Net-based business models grow. We need to be vigilant regarding our clients' business model exposure."

"We recently sat down with the owner of a small manufacturing company and compared each expense line of his current financial statement to that of three and four years ago, when business was more prosperous," Sroka says. "We focused on many of the fixed costs and identified various areas that additional cost cutting measures could be implemented. Another of our clients is a scrap metal dealer who ships approximately 50 percent of its merchandise to China. After some inquiries and research, we advised the client to form another corporation, an IC-DISC, Interest Charge Domestic International Sales Corporation. The formation of this entity resulted in a tax savings to the company in the first year alone of approximately \$100,000. We also arranged for a meeting with a client's banker to discuss their financial statement and explain the nature of their current operations and cash-flow issues. This enabled the banker to better understand the business."

Be flexible in the services you offer, Zagar says. "Small businesses are unique and vary in the level of services they desire. You also need to be able to change with the client's needs as their business changes."

Bad Economy: Expected Impact

"They're concerned about the tightening of the credit market," says Herbert, who predicts that his small-business clients will feel the current economy when they try to renew loans in 2009. "We haven't seen enough of a tightening to where they're making panic calls to us, but they are putting off hiring, putting off buying equipment, cutting back where they can cut back," he says.

"We need to communicate better than ever," says Zagar. "If there's likely to be a decrease in revenue, a projection can help determine if there'll be a cash shortfall and allow the client to make arrangements for additional funds or to cut expenses to address the problem ahead of time."

"People are not willing to spend for extra services," notes Wouch. "But in times like these, the banks, sureties, and other credit grantors like more-frequent, regular information, which keeps us just as busy with clients in general. Some clients have asked us to help them with cash flow forecasts, breakeven analyses, and cost-benefit analyses."

The downturn creates what Haggard calls an excellent opportunity for business owners to consider his firm's business valuation services.

"We recently advised a small-business owner of the opportunity to increase his gifting of shares to heirs as part of the business's succession planning," he says. "The circumstances were such that the value of his company was depressed due to general economic circumstances as well as specific company factors. The client is hopeful that these are temporary circumstances, and that eventually the value of the business will appreciate. Therefore he can transfer a much greater percentage of his business, and utilize less of his

lifetime gifting exclusion. The hoped-for result helps with his overall estate-planning objectives, and allows the future appreciation to be in the hands of the next generation. Another service we actively inform applicable business clients about is the costs savings involving the newly extended Alternative Simplified Credit (ASC) for qualified research and development expenditures."

Cost segregation studies for business owners owning depreciable real estate can also improve the immediate cash flow by accelerating depreciation in some cases, he adds.

Crucial Tips and Advice

Understand the small-business client's business model mechanics "thoroughly and completely, up and down, inside and out, unequivocally," Haggard stresses. "Knowing how sales leads are generated to how the final product or service is delivered in their business model is critical. Intimately understanding the mechanics of the business model and being able to recognize mandatory compliance issues and discretionary cost/time-saving opportunities within the business model gives you the knowledge base necessary to approaching the client."

"We begin by speaking with our clients directly, with a view to helping them explore with us what business issues most affect them," says Tim Mahoney, director of business development for ALL. "For example, a small-business owner prospect that runs a small dental laboratory came to us recently to have us prepare his S-corporation tax returns. During the course of us sitting with him and asking questions about his business operations, he concluded that he also needed help with bookkeeping, payroll, and HR issues. He felt that he was giving valuable time to reconciling his bank accounts that could be more productively invested in other areas of his business.

"By first understanding his business and where he needed assistance, we were able to customize solutions that addressed his most pressing needs. He's told us that he feels we're part of his team.

"If a CPA fails to keep in constant contact with their clients, they're going to miss out on opportunities," adds Mahoney. "When new tax or accounting laws are passed, we make sure that we identify which of our clients need to know about the change. When Congress passed a law that gave tax credits to domestic manufacturers, we made sure that we shared this information with all of our manufacturing clients. We then were able to work them directly to make sure they understood the record keeping involved so that they would have all the information necessary to take full advantage."

"Listen!" Wouch stresses. "Small-business owners are willing to share their challenges and seek out advice and opinions. Once they know you're listening and you have the experience and the ability to help, they'll be happy to have you help them. I often ask them a few simple questions such as 'How's business?', 'How's your bank treating you?', or 'Do you have all the work you want or are you looking for more?'"

Listening may seem simple, "but often we may find ourselves offering a client what we think they want rather than taking the time to ask them what they do want," Zagar adds.

Clients must, however, be open to this type of engagement and advice. "The good entrepreneurs see the value in advisors," Herbert says.

"The small-business owner usually needs someone to talk to often and be comfortable in that relationship," says Sroka. "They may contact the accountant on a daily basis wanting to bounce their ideas off someone and look for guidance in their decision-making. We are that someone."

For related material, see "Business Diagnostic Check-Up" in the August, 2008, issue of Practical Accountant, and "Nifty Niches" in the September, 2007, issue of Practical Accountant, both at www.practicalaccountant.com. See also the "Practice Management" channel at [Webcpa.com](http://www.webcpa.com).