Positioning the Accounting Firm

By David A. Bradlow, MBA

HEADNOTE: Positioning is a process for achieving growth by establishing and communicating a unique market identity. This is accomplished by identifying a firm's internal strengths and weaknesses, its external opportunities and threats, and by systematic planning of future activities. The author presents a well considered outline for practioners.

Accounting practice, like life, is easier when you know who you are. Honest self-appraisal allows a firm to set goals consistent with its strengths and to capitalize on its unique capabilities in the marketplace.

This article discusses the advantages of positioning for accounting firms, outlines how to assess a firm's strengths and weaknesses to create a unique market position, and provides a case study of an accounting firm which successfully positioned itself.

Well-run companies with tangible products have long recognized the importance of positioning or defining the unique attributes of their products. They therefore position their products to dominate a niche, using various forms of product differentiation, such as packaging, pricing, quality and features.

In recent years accountants have also begun to benefit from the thoughtful and careful positioning of their firms in the marketplace. While a firm's success may have resulted initially from the energy, skill and reputations of the partners, at some point the firm must establish an identity which transcends the partners and attracts clients because of the firm's special capabilities. Firms which position themselves are simply operating like any well-run business in an intensely competitive market.

The increased competition is a result of deep structural changes in the U.S. economy. Services are now the dominant sector. In 1948 the goods-producing sector accounted for 46 percent of the gross national product and the service sector for 54 percent. In 1978 the figures were respectively 34 percent and 66 percent. Producer services (which include independent accountants, architectural, advertising, investment banking, law and management consulting firms) was the fastest growing for-profit service component of the economy between those years. Its share of the gross national product increased by 50 percent, growing from 12 percent in 1948 to 18 percent in 1978.[1]

Heightened competition is particularly evident in the accounting profession. In 1984, 523 publicly traded companies in the U.S. switched auditors, more than ever before.[2] About 70 percent of these companies said that they changed

David A. Bradlow, MBA, is the principal of a consulting firm in San Francisco that specializes in strategic planning, finance and marketing. He has served as an adviser to several professional service firms, and has contributed articles to other professional journals.

[1] Eli Ginzberg and George J. Vojta, "The Service Sector of the U.S. Economy," Scientific American, March 1981, p. 48.
[2] "Public Acounting Report," Professional Publications, Inc., Atlanta, Georgia, January 1985, p. 3.

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auditors to obtain lower fees and better service.[3] Big companies are treating the outside audit like a commodity, and to cut costs, are requesting multiple bids from CPA firms. This has resulted in clients receiving severely discounted fees. Furthermore, increasing numbers of mergers and companies "going private" are shrinking the public client base. These developments have led larger CPA firms to compete more aggressively with smaller accounting firms for the business of mid-sized and closely held companies.

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Consequently, more and more accounting firms are undertaking the analysis necessary to develop comprehensive marketing strategies and to position themselves advantageously. As a result of the analysis they can:

- Define the target market to which the firm's message should be conveyed.
- Develop an identity for the firm, based on its unique capabilities.
- Create an image for the firm that shapes and influences the market's beliefs about the firm.

The firm can then define a position which becomes the basis for communicating with existing and potential clients, as well as for developing a cohesive, effective culture among members of the firm. A positioning strategy can be conceived and implemented in various ways:[4]

- *Positioning by attribute.* Probably the most frequently used positioning strategy is to associate an accounting firm with one or more attributes or client benefits. A firm might, for example, build a reputation on its expertise in international taxation. Another firm could position itself as a leader in bankruptcy work.
- *Positioning by segment.* Another positioning approach is to associate a firm with one or more client categories. For example, one medium sized firm is known for its work for clubs, hotels and restaurants. A large local firm may concentrate on advising wealthy individuals on personal finances. Depending on the firm's resources, several specializations could be attained.
- *Positioning by price/value.* As described above, the price/value dimension is becoming increasingly pervasive in the accounting arena. However, because clients may associate low fees with poor quality work, at this stage no firm is explicitly and primarily positioning itself as a low cost alternative.
- *Positioning with respect to a competitor.* In most positioning strategies an implicit frame of reference is the competition. For example, small "boutique" firms often position themselves in relation to large, full-service firms by stressing their specialized expertise and superior service.

The Advantages of Positioning

Positioning is not an academic exercise. Rather, it is a potent practice development tool, when formulated as part of a comprehensive strategic plan.

Without positioning, accounting firms of a given size are generally undifferentiated in the minds of clients. It may, for example, be difficult for clients to distinguish among the various accounting firms that comprise the "Big Eight." A well-defined identity in the marketplace resolves this ambiguity by informing clients about the qualities of the firm that distinguish it from the competition. This enables the firm to attract those clients it is best able to serve.

Positioning is also a way to give tangibility to services. Theodore Levitt has argued persuasively that both goods and services are products, the key difference being that services are almost entirely intangible. Because prospective clients cannot see, touch or smell the product, they select a firm based on images, impressions and promises of satisfaction. "The less tangible the generic product, the more powerfully and persistently the judgment about it gets shaped by the packaging—how it's presented, who presents it, and what's implied by metaphor, simile, symbol, and other surrogates for reality."[5] Positioning is therefore a critical element in the process of making promises "tangible."

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A firm identity is as important for the successful internal operations of the firm as it is for developing business. When the partners, managers and staff accountants are clear about the firm's basic thrust and what the firm stands for, they are more likely to have a sense of purpose and direction, which results in more effective teamwork and greater productivity.

Relationship Between Positioning and Strategic Planning

To develop a strong position, a firm must ask itself, "Who are we now?" and "Who do we want to be?" Therefore, positioning should be developed within the context of an overall strategic plan which includes a situation analysis, statement of objectives, marketing plan, organizational plan and financial plan.

The positioning should accurately reflect the firm's current capabilities. However, by its very nature, strategic planning forces a firm into a future orientation. Therefore at the time a firm defines its present positioning, it should also plan

[3] "Public Accounting Report," Professional Publications, Inc., Atlanta, Georgia, February 1985, p. 1.

[4] Based on a framework developed by David A. Aaker, "Positioning Your Product," Business Horizons, May/June 1982, p. 56.

[5] Theodore Levitt, "Marketing Intangible Products and Product Intangibles," Harvard Business Review, May–June 1981, p. 97.

Table I
ANALYSIS OF REVENUES

Component	Purpose
1. Type of services. (Accounting and auditing, tax work, management consulting.)	a. To which of the firm's services is the market most responsive? b. What is the profitability of each of the services offered by the firm? c. Are there services which the firm could profitably develop?
2. Client industries.	a. What proportion of the firm's business comes from various industries? b. Is the firm too dependent on select industries? c. Are there growth industries that the firm could profitably serve?
3. Geographical location of clients.	a. From where does the firm draw business? b. Are there rapidly growing adjacent cities or counties that the firm could profitably serve?
4. Size of clients (Annual sales volume.)	a. Does the firm cater to small (<$20 million), medium ($20 to $100 million) or large (>$100 million) businesses? b. Are there size segments that the firm is ignoring?
5. Specific clients.	a. What proportion of the firm's business is generated by the top 10 clients? By the next 10 clients? By the third group of 10? Etc? b. Are most revenues generated by a small number of clients? c. Does the firm have a large number of small clients? Are they profitable?
6. Size of annual fee.	a. What percentage of the firm's business is derived from various annual billing ranges (e.g. < $5 thousand, $5 to $15 thousand, $15 to $35 thousand, > $35 thousand)? b. Do clients tend to use the firm for large matters or a full range of services? Or, do they use the firm for small matters and a narrow range of services? c. Can existing clients be encouraged to use the firm for a wider range of services? d. What are the characteristics of the clients that generate large annual fees? Can similar prospects be identified and reached?
7. Original source of clients.	a. How does the firm generate new clients (e.g. social/family contacts; political affiliations; call-ins; advertising; referrals by existing clients, other CPA's, banks, attorneys, etc.)? b. How much new business is generated by each of the firm's partners? c. Are there sources of new business that could be developed profitably?

Note: It may be helpful to analyze numbers 2 through 7 *within* each type of service.

for its future positioning. For example, based on an analysis of the environment and competitive trends, a firm may decide how it wishes to position itself in three years. The strategic planning process necessitates that the firm plan for the kind of people needed to support this positioning, how many, when and how they should be recruited, what additional space and support functions will be required, and how this will all be financed.

Positioning, like strategic planning, is a dynamic concept. The firm should be able to modify its positioning as internal and external forces compel changes in strategic direction. On the other hand, establishing a niche requires persistence, and a firm's positioning should not be impulsively varied.

How to Create a Firm's Positioning

The first step in the creation of a firm's positioning is a thorough *situation analysis*. This provides a complete picture of the firm's internal strengths and weaknesses, as well as its external opportunities and threats.

1. *Analysis of revenues.* The purpose of this aspect of the analysis is to gain a complete understanding of the firm's sources of revenue. By categorizing the existing client base, and by determining which services are important to each category, it is possible to discern strengths that may warrant emphasis in a positioning statement. Conversely, the examination may reveal weaknesses that require attention. A firm may discover, for example, that it is financially vulnerable because it derives a large proportion of revenues from a small number of clients, or because it depends on a limited range of new business sources. To recognize trends, the analysis should go back three to five years. Table I shows the various components of the revenue analysis.

2. *Analysis of the external environment.* The purpose of this phase of the situation analysis is to identify the economic, political, professional, or competitive factors that represent opportunities or threats to the firm. The following are examples of the kinds of questions that should be answered:

A. What is predicted for the national economy, and how will that influence the firm? (For example, a sustained rise in the stock market will result in a greater volume of initial public offerings, creating more demand for audited financial statements.)

B. What sectors of the local economy are growing? Which ones are declining? (For example, in some states, the battered condition of the agricultural sector has led to increased demand for workout services from both debtors and creditors.)

C. What aspects of the profession are likely to grow over the next three to five years? Which ones are expected to decline? (For example: for those firms serving real estate syndicators, what will be the impact of tax reform?)

D. What are the important developments within the profession? (For example, the tendency for clients to "shop" the price of an audit.)

E. Who are the firm's key competitors, and what do their respective strategies appear to be?

F. What are the strengths and weaknesses of each of the firm's key competitors?

G. Are there gaps in the market, i.e. services not offered or segments not served by competitors? (For example, many businesses, anxious to install microcomputers, are finding that their accounting firms have not acquired the necessary expertise in software development.)

3. *Analysis of the internal environment.* The objective here is to enumerate the firm's strengths and weaknesses by examining three principal areas: personnel, finances and reputation.

A. **Personnel:**

Because the firm cannot be positioned beyond current or attainable human resources, the following questions need to be answered:

I. What are the firm's major technical strengths? A firm's strength might be one area, such as auditing state and local governments. Or a firm's strength may be a particular combination of skills, for example, full service in taxation, auditing and management consulting for private companies.

II. What technical skills are missing? Which of these can be easily obtained? Although skills are only "missing" relative to a firm's positioning, by this point in the analysis a preliminary positioning statement will probably have emerged.

B. **Finances:**

There is no point in attempting to establish a position which cannot be matched by the firm's financial capabilities. Therefore, before undertaking the process, the firm should project the costs involved in developing and communicating its positioning and in acquiring the necessary personnel. The firm's ability to finance these outlays from internal resources or borrowing should be assessed. As a starting point, the firm should examine its leverage and profitability ratios over a three to five year period to discern trends. These ratios should then be compared with the averages for the profession to gauge relative financial condition and performance.[6] In addition, the firm should develop a cash flow projection incorporating the anticipated expenditures.

C. **Reputation:**

Interviewing a sample of at least six of the firm's existing clients is probably the most important aspect of the situation analysis. In many instances clients will recite the precise points that need to be incorporated into a firm's positioning. Conversely, they may also express weaknesses of the firm that may require attention. Subjects to explore during an interview include the clients' perceptions of the firm's strengths, weaknesses, service, quality, integrity, fees and punctuality. Interview subjects should also be asked to identify and evaluate the firm's competitors. Clients are generally flattered to be asked for advice and provide valuable and constructive feedback.

Since referral sources, such as other CPAs, attorneys and bankers play a critical role in fostering a firm's growth, it is also important to interview a sample of these contacts to assess their image of the firm.

Once the situation analysis is complete, the firm can begin to develop a positioning statement. Because it is impossible to be everything to everyone, one or a few target markets should be selected. The decision should be based on the attractiveness of each target market in relation to the firm's capabilities. A market's attractiveness depends on such factors as size, growth and competitive intensity. The firm's strengths vis-a-vis a particular target market are determined primarily by existing penetration, possession of the requisite technical skills and experience, and ability to implement an effective marketing program.

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The selection of a target market dictates how the firm should position itself. The situation analysis should reveal how different competitors within a specific target market are positioned, and what firm characteristics are important to targeted clients. Using this information, a distinctive image or "personality" for the firm must be created. These are some of the characteristics on which a distinctive image can be built: prestige, experience, low fees, aggressiveness, service, quality, specialized expertise, friendliness, pragmatism, and empathy with the particular needs of the target market.

In terms of format, the positioning statement should consist of a concise sentence which describes the unique features of the firm. This sentence can be followed by statements that support the main sentence or set forth secondary characteristics of the firm. The entire positioning statement should not exceed one page.

Developing a positioning statement requires skillful analysis as well as creative thinking. In fact, this is why many firms fail to position themselves. Typically, members of the firm are experts in their craft, dedicated to generating income based on their particular talent. In some cases, they are simply unaware of the value of positioning the firm. But, even when they recognize its importance, they may not have the time or expertise to develop a marketing strategy. There are some, too, who are so involved in the firm's operations and politics that they have difficulty evaluating the firm's strengths and weaknesses objectively.

Thus, once a decision is made to position the firm, the partners must be willing to commit the time and resources to develop a strategic plan. They must strive for a consensus on their objectives for the firm, its strengths, and the image they would like to project. Someone with the requisite skill and objectivity must be responsible for seeing the project through,

[6] These ratios may be obtained from sources such as Dun & Bradstreet, Robert Morris Associates, and CPA societies.

including conducting the situation analysis, creating the positioning statement, and developing and implementing the marketing strategy.

An Example of Positioning

In 1982 the managing partner of a California accounting firm undertook the development of a marketing strategy for his firm. The firm had been started in the 1970s, and by 1982 was generating annual revenues in excess of $2 million. The managing partner was anxious to maintain the firm's growth, and set an objective of approximately $5 million revenue for 1987.

The firm's situation analysis revealed the following:

- 50 percent of the firm's annual revenues were derived from the real estate sector. In light of the industry's cyclicality, this was regarded as too high.
- 55 percent of the firm's fees were obtained from traditional services (audit, review, compilation and tax preparation). This relatively low percentage underscored the firm's strength in non-traditional services.
- Almost 70 percent of the firm's revenues came from clients whose annual bill exceeded $20,000. This suggested that the firm's clients desired and could afford an extensive range of services.
- 55 percent of fees were derived from clients with annual sales less than $10 million. Most of the clients were closely held or family controlled companies.
- Interviews with bankers and attorneys familiar with the firm, and with clients, revealed that the firm was held in high esteem for its entrepreneurial instincts. The consensus was that the firm provided substantial business expertise in addition to the traditional accounting functions. Clients felt comfortable turning to the firm for counsel on a broad range of decisions, and felt that the firm offered sound business judgment. Competitive accounting firms were perceived as being oriented towards the past.

Based on this information, the managing partner determined that the firm's target market was closely held or family controlled companies, located in the adjacent geographical area, in all industries, and with sales of $1 million to $20 million. The firm would avoid companies aspiring to go public, as he felt that these companies would ultimately migrate to a larger firm.

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He decided to position the firm as: "The entrepreneur's accounting firm, providing comprehensive business advisory services as well as the traditional accounting functions."

The following ancillary elements were used to support this main statement:

- The firm understands the entrepreneur.
- The firm is able to address these needs in a thorough manner. In addition to tax preparation and audit or review work, the firm can provide assistance and advice in decision-making across a broad spectrum.
- The firm is oriented towards the future, and emphasizes the planning and financing of profitable, stable growth.
- The firm considers itself to be a "partner" vitally concerned in the growth and profitability of the client.

The positioning of the firm was a major component of a marketing plan which has been highly successful. The firm has developed a powerful, unique identity in the marketplace, and many new clients have stated that they were attracted to the firm precisely because of the empathy with their particular needs as expressed in the firm's positioning. The firm's revenues are exceeding projections.

How to *Communicate* Positioning

Positioning is a tool to be used. There is no point in undertaking the exercise if the positioning is not to be actively employed in differentiating the firm and fostering its growth.

Since clients form their impressions of a firm from numerous direct and indirect cues, each element in the communication process must consistently reinforce the firm's positioning.

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The office location, office decor, visual identity (logo, stationery, forms, calling cards), advertising, direct mail, newsletters, brochures, proposals and published articles must all evoke the firm's unique identity. The people who represent the firm on assignment, or in the form of presentations, speeches and seminars, should reinforce the firm's identity. If, for example, a firm positions itself in terms of "innovation," every point of contact, whether personal or not, must demonstrate that characteristic.

The firm must also consider to whom the positioning should be communicated. The most obvious audience is current and potential clients. However, because they can dramatically influence how the firm is perceived, employees, the media, professional associations, and referral sources should also be included.

To ensure that the firm's positioning is communicated in a professional manner, outside assistance will invariably be needed. Depending on the scope of the marketing strategy and the firm's budget, help can be obtained from public relations firms, advertising agencies, graphic designers, copy writers, communications consultants and interior designers. However, positioning precedes everything else. The firm must first decide what identity to project, and only then should the various communications specialists be engaged. If this is not done, a great deal of time and money will be wasted.

Whether an accounting firm should advertise is debatable. Because of increasing competition and changing professional mores, advertising will undoubtedly become more common. If a firm does decide to advertise, the real issue is to make certain that the claims are credible.

Summary

Although it takes time and creativity to develop a firm's positioning, the financial rewards can be significant. Positioning can help a firm secure new clients by unambiguously communicating to a target market that the firm is uniquely competent to meet that market's needs. At the same time, positioning can enhance the loyalty of existing clients when the firm demonstrates its articulated capabilities.

Positioning can also increase a firm's revenues by enabling it to dominate a niche in the market. People are willing to pay more for uniqueness. If a client believes that a firm offers greater value added because its services are tailored towards their particular requirements, they will be less price-sensitive.

As competition among accounting firms increases, the ability to generate income in these ways cannot be ignored. Positioning is therefore a critical element in a business development plan which seeks to advance the firm. Ω