

# Strategic Marketing of Public Accounting Services\*

In this century, to date, the public accounting profession has experienced continuing phenomenal growth, so that the development of an individual practice has not heretofore required much planning or use of special techniques. This rate of growth may be slowing just when the rules concerning relations with clients and prospects have been greatly relaxed. The authors candidly analyze the services offered by the profession and the attributes that persuade clients to engage a particular practitioner. This discussion will help firms of all sizes plan intelligently for client retention and growth, while following a suitable, but changed, code of behavior.

ONE hundred years ago, Paul Valery, the French philosopher, remarked that, "The trouble with our times is that the future is not what it used to be."

Valery's comment is important to this introduction because, when discussing the "Strategic Marketing of Public Accounting Services," we cannot look much to the past to help us today. The legislative and regulatory pressures which accelerated in the 1960s and early 1970s to increase the demand for audit services have significantly decreased. Most recently, since 1978, changes allowing the profession to engage in advertising and competitive bidding have completely revised the marketing environment.

While the lack of a relevant past may be confusing for strategic marketing planning, the lack of precedent also provides a challenge. The public accounting profession is now a mature one. The "litigation explosion" of the 1960s and '70s is most likely over. The audit marketplace is shrinking while, at the same time, public account-

ing firms face the conflicting pressure to grow in earnings.

A remark made by Professor William Hall in the September 1980 *Harvard Business Review* concerning his study of 64 businesses engaged in eight different manufacturing industries could be applied to today's public accounting profession:

The laws of the jungle change as maturity comes and hostility intensifies. In such a jungle the number of strategic options narrows, requiring both an early warning of coming hostility and an early strategic repositioning for a company to survive and prosper.<sup>1</sup>

Accounting firms are aware that intense competition lies ahead; that marketing is no longer limited to "old boy" activity; that the strategic marketing of services will grow constantly more aggressive, in fact if not in tone. A history of the profession encompassing the last fifty years makes clear the "new world" of marketing today.

## History of Regulation of the Profession

Our highly regulated professional world has come into existence over time. In 1933 and 1934 the SEC began to issue the rules and regulations to maintain, in the

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<sup>1</sup> William K. Hall, "Survival Strategies in a Hostile Environment," *Harvard Business Review*, p. 84, September-October, 1980.

case of public accounting, auditor independence. At about the same time, tax laws grew more complex and more wide-reaching. The use of sophisticated EDP equipment, which became commonplace in the 1960s, changed the business world and, concomitantly, auditing techniques.

In recent years, with the rise in accountability pressures from the public and increasing liability coverage costs, accounting firms have been under new pressures which change the environment in which they offer services.

Further, the SEC, the Department of Justice and the FTC have exerted pressure since the mid-1970s to force accounting firms to reassess their competitive environment and to revamp the manner in which they offer services. In response, the AICPA in 1978 repealed Rule 401, "Encroachment," and deleted that portion of Rule 502, "Advertising and Other Forms of Solicitation" which forbade direct, uninvited solicitation of specific potential clients.

In addition, slower real economic growth, as well as mergers and consolidations, have forced accounting firms to be more aggressive in maintaining growth rates and setting future growth goals.

As if these factors did not render the public accounting marketing environment complex enough, the SEC issued in 1978 and 1979 two ASRs which suggest restrictions on the scope of services offered by public accounting firms in the name of insuring auditor independence.

ASR 250 requires that two new pieces of information be included in a company's proxy statement. First, the percentage relationship, which both the aggregate non-audit fees and the fees for each separate non-audit service bear to the audit fees, must be disclosed. Second, it must be stated whether the Board of Directors, the audit committee, or a similar committee, has approved each non-audit service. ASR 250 states, "These disclosures should aid investors in better understanding and evaluating the registrant's relationship with its independent accountants." The implication seems clear enough: that too much non-audit work, or non-audit work not approved by the Board, might impair auditor independence from a company's management.

ASR 264 contains the SEC's views on the relationship between non-audit services and independence. The SEC enumerates certain factors which it believes accountants and clients—including Board or audit committee members—should assess regarding the possible impairment of auditor objectivity. Both accountants and clients are advised to consider the magnitude of non-audit services in relationship to total services and, also, the possible assumption of management authority by the auditors. Accountants and clients are also asked to see that auditors avoid self-review as a result of their involvement with non-audit services. In addition, clients are counseled to consider the cost/benefit analysis of non-audit services offered by the independent accountant. The accountant is given two more factors to consider in assessing his inde-

pendence: (1) the effect of non-audit services on audit quality; and (2) the relationship of non-audit services to audit skills. The rationale behind the SEC's views is stated in ASR-264 as follows:

The growing array of non-audit services offered by some independent public accountants—and the growing importance of management advisory services to the revenues, profits and competitive position of accounting firms—are a cause of legitimate concern as to the impact of these activities on auditor independence, objectivity and professionalism.

Most large accounting firms have taken basically the same position in response to ASR 264, stating that they have established policies and methods of quality control which insure their independence.

In the marketing of services, as the competition grows fiercer, ASRs 250 and 264 represent cautions regarding the offering of non-audit services—and it is precisely in the offering of non-audit services that many firms believe they will increase their practice and meet future growth incentives.

Another important change in the marketplace came about because, at the same time accounting firms were given permission to advertise and to solicit clients, they were also permitted to engage in competitive bidding. One result has been that today, when firms are competing for audits, price considerations for an audit can be given high priority. This has caused shrinking profit margins in the rendering of some audit services—and this is another factor which makes the offering of non-audit services attractive: profit margins can be considerably higher for attractive, value added, non-audit services.

Price competition is further heightened because the marketplace for the public accounting world—as for much of the business world—is no longer growing and, in fact, is probably shrinking. There is a finite number of large audit clients. Consolidations and mergers are eliminating other audit opportunities, and the accounting profession now receives competition from nontraditional areas—from banks offering cash control of tax preparation programs, for example, or from insurance companies offering employee benefit consulting services.

## Strategic Marketing

Because it seems clear that competition in the accounting profession can only grow fiercer in the 1980s, it also seems clear that those firms will grow and prosper which have the best, most innovative strategic marketing programs. These firms already recognize that the low-key, often intentional attitude toward the marketing of services is a thing of the past, to be replaced by planned aggression. Success-oriented firms will also note that at the same time as the demand for traditional accounting services may be diminishing, the increased demand for non-

audit services will be closely watched by the SEC.

To be taken into account by any strategic marketing program are four important characteristics of public accounting services:<sup>2</sup>

**' . . . in the offering of non-audit services . . . many firms believe they will increase their practice and meet future growth incentives.'**

First, *accounting services are intangible*. This means, in a sense, that "promises" and "chemistry" are being sold. Recent marketing literature speaks of the importance of "image" when selling intangibles. Image becomes a way for CPA firms to differentiate themselves from one another. There are currently many articles stating that accounting professionals should dress well; that the offices of a CPA firm should be decorated in a tasteful, professional manner; that the people who represent the service must be articulate, informed understanding—social skills, by the way, which most accountants who entered the profession twenty years ago never thought of as part of their work.

Second, and somewhat as a corollary to the first, it is often pointed out that *accounting services are delivered at the same time they are consumed*. The performance of an audit is both the service rendered and received. This means there is no sense of product *per se*. To offset this nebulous sense for the client, accountants write recommendations and reports regarding their findings. While these reports can be most helpful to a business, the truth remains that they are a by-product of the audit. The audit itself remains basically a "happening."

Third, one of the realities in marketing public accounting services is that *the size and importance of the CPA firm are a consideration of most clients*. According to the findings of a recent survey,<sup>3</sup> the "Big 8" exercise considerable importance among larger businesses or businesses requiring additional services, with the implication being that smaller CPA firms need to find other ways of marketing services geared, probably, to small- and medium-sized businesses. An important consideration here, and one borne out by market research, is to be aware that any size firm grows more because its clients grow than by the firm's gathering greater numbers of clients.

The Fourth, *there is a high degree of interaction between the client and the CPA firm*. Again, "image" and "chemistry" are stressed, because it is important in selling services to choose a "good match" between the ac-

counting team representing the firm and the prospective client it hopes to win and hold. This close interaction requires continual nurturing during the client-firm relationship. If the interaction and communication are good, services can be delivered to the client's satisfaction. The high degree of interaction shows the importance of psychology and attention in the rendering of accounting services and, undoubtedly, in the delivery of any professional service.

This enumeration of the four basic marketing characteristics of public accounting services, as well as their implications, makes it clear that the accountant, who has technical and often difficult work to perform, can be asked to do any number of things in today's marketing environment: to sell; to dress well; to be eloquent; to be a technician, a communications expert, a psychologist, a tax specialist, a conduit of reassurance and understanding. And he or she can be asked to be all of these things at the same time.

### What the Buyer Is Looking For

Underlying all this, it is important to remember that the CPA firm is selling three basic things: people, industry skills and technical skills. All must be delivered in an efficient, desired manner, and this can be difficult. First, it must be determined what the buyer desires. Determining what to sell, to which buyers, is part of strategic marketing. In keeping with this, more CPA firms are doing more market research and analysis, as well as fieldwork, than ever before. Recently, Professors William George and Paul Solomon published the results of their survey, "Factors Influencing Selection of a CPA Firm," in the *Journal of Accountancy*.<sup>4</sup> This survey indicates what is important to clients of any size. The most influential factor in choosing a CPA firm was location: 78 percent of the businessmen polled desired the CPA firm to have "offices in areas where business units are located."<sup>5</sup> This should give added impetus to provide offices in new territories as the marketplace expands.

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The authors of the survey were particularly interested in determining the extent to which advertising was considered influential by businessmen (advertising had been allowed for two years at the time of the survey); they learned that advertising was not ranked among the top

<sup>2</sup> These four characteristics, without the exposition which surrounds them, appear in William R. George and Paul J. Solomon's article, "Professional Notes: Marketing Strategies for Improving Practice Development," p. 70, *The Journal of Accountancy*, February, 1980.

<sup>3</sup> *Ibid.*, p. 83.

<sup>4</sup> *Ibid.*, pp. 79-84.

<sup>5</sup> *Ibid.*, p. 80.

ten factors influencing choice of CPA firm. Instead, the ranking of influential factors—after geographic location—was as follows:

1. Specialization of the CPA firm in the prospect's industry;
  2. The recommendations of present clients of the CPA firm;
  3. Aggressiveness of the CPA firm;
  4. Current client list of the CPA firm;
  5. The fact that the CPA firm is one of the "Big 8."<sup>6</sup>
- Fees did not come into play until sixth place; seventh was the rather cynical "belief that the CPA firm will give the company an unqualified opinion." Interestingly, not considered particularly influential and not ranked until 8th, 9th and 10th were some ties to the past, some traditional methods of practice development:
8. Friendships with members of the CPA firm;
  9. Community activities by members of the CPA firm;
  10. Club memberships and entertainment by members of the CPA firm.<sup>6</sup>

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Just as interestingly, as another indication of a turning away from the past, was the fact that "aggressiveness" ranked third, and was appreciated by 60 percent of the businessmen surveyed. As the authors point out, this tends to indicate approval of the direct marketing efforts done by public accounting firms since 1978. As the businessmen saw it:

Aggressiveness implies the firm is active in a business setting and has a strong client orientation, focusing on the client's specific problems and needs and emphasizing how the firm can solve these problems. This is in contrast to the more typical "nonaggressive" approach in which the firm presenting the proposal focuses on its own skills, training and experience, believing that its general qualifications will prevail over competition.<sup>7</sup>

### **Marketing Additional Services**

This survey also ranked "Factors Influencing Purchase of Additional Services from the CPA firm."<sup>8</sup> We mentioned earlier that offering more services is a strategy considered important for future growth, and 89 percent of the businessmen polled stated that the most important factor influencing the purchase of additional services is

the growth of the businessmen's own companies. As mentioned earlier, marketing to clients who have growth potential within their own companies will probably, more surely than any other method, help a CPA firm grow.

Second, 74 percent of the businessmen interviewed felt that new government regulations influence them to buy additional services. However, since the period of increasing regulations seems to be over, this factor should not be regarded, for strategic planning purposes, as a way to sell additional services in the near future. More optimistically, 67 percent of the businessmen felt they would purchase additional services as a result of a meeting during which the CPA firm discussed company problems and offered services to solve them. This points out again the importance of a close relationship between the client and the CPA firm: not only do the established services get delivered effectively, additional services can also be sold. Fourth, 52 percent of the businessmen felt that the "development of new services by the CPA firm" would influence them to buy additional services. This is a fairly compelling argument in itself, for developing good new services.

The businessmen found the more traditional public relations' marketing methods much less influential. These include offering seminars to clients (36 percent) and writing newsletters for clients describing new services (31 percent). However, 48 percent of the businessmen are influenced by having discussions with other business associates about accounting services: this points to the importance of *educating* clients about the beneficial ramifications of other services the accounting firm offers.

### ***' . . . marketing to clients who have growth potential . . . will probably, more surely than any other method, help a CPA firm grow.'***

The findings of the survey, as well as other factors mentioned, point out that an effective marketing program will incorporate a number of strategies. These need to be managed carefully and involve coordination internally, with members of the CPA firm, and externally. In general, members of the CPA firm at all levels should be encouraged to tell people about their firm, its services and the other clients it services:<sup>9</sup> this is a good method of spreading the word about a particular firm and of educating people about the services offered.

### **Creating a Distinct Image**

Since a number of public accounting firms offer the same or similar services—accounting, auditing, tax and

<sup>6</sup> *Ibid.*, p. 83.

<sup>7</sup> *Ibid.*, p. 81.

<sup>8</sup> *Ibid.*, p. 83.

<sup>9</sup> *Ibid.*, p. 84.

management consulting services—it becomes important to create a distinct image of the firm in clients' minds. For example, since all audits tend to seem the same, they can be differentiated in the way they are offered. The firm's image will help a potential client decide whether he wants an audit from a firm known as "old and reliable"; whether he wants an audit from an "elegant" firm as a way to garner prestige for his own business; or whether he wants an audit performed by a firm known for its "no-nonsense" approach, with its implications of efficiency and lower cost. Of course, a CPA firm's industry expertise and client list will always be taken into account by a potential client. But it is part of strategic marketing to be able to mitigate any shortcoming in these factors by image.

And image itself can be modified in specific circumstances. For example, if a CPA firm is perceived as "old reliable," and is proposing to a company which seems to be seeking innovation and creativity regarding its financial reporting and audit, the CPA firm can propose ideas that the prospect has not thought of and which respond directly to its needs for, say, more efficient financial controls. Now, perhaps, the buyer will see "old reliable" in a new light, as a responsive, creative CPA firm and a much more vigorous competitor than previously expected.

### Being Aggressive

This kind of strategic marketing requires creative people who understand how to compete fiercely while remaining with the profession's ethics—for, unquestionably, ethics will be called into question when marketing strategies call for tactical aggression. Just recently, in fact, our consultants were told by a buyer that we had won a large, national engagement in very heated competition. Our consultants were told we had been chosen because of our innovative, "state of the art" approach to a particularly difficult statistical issue. Upon hearing the good news, we relaxed—and, at that, our chief competitor returned to the buyer. The competitor said they had rethought their approach to the engagement along our lines; they treated the buyer with steady, high-level concern; and they promised to do the job, with slight revisions to our concept, for somewhat less money. The result was our competitor was awarded the job and signed the contract.

In this case, while the marketing approach of our competitor was unorthodox, it was probably ethical. We can lament that our potential client did not return to us to say they were rethinking the matter; but perhaps we could have remained in closer contact and learned what was happening. Certainly, this engagement illustrates that, when faced with this kind of savvy streetfighting, we must learn to think of marketing in new ways. Of utmost importance is to do so in a way that does not despoil the ethics of the services offered. One of the challenges facing the profession is, without question, maintaining the integrity of services while competing in a savage marketplace. Undoubtedly, the key to maintaining professional

ethics will be in finding methods of differentiation that bespeak an underlying commitment to good service and good professional practices. For example, when we lost the consulting engagement, our competitor "admitted" by imitation that our initial approach to the account was better than theirs; and the competitor showed a level of commitment to servicing the buyer which we did not, once we had been told we had won the account. Good thinking, good service—the client got what it wanted. With the "old boy" ties gone, clients' initial allegiances are formed by good tactical marketing approaches.

### Advertising

This brings us to the issue of advertising. As noted several times, advertising has not yet become an important marketing tool for most CPA firms. By way of background, to quote from Michael K. Lowry's 1976 article in the *Journal of Accountancy*:

The accountant's traditional ban against advertising was established in the public interest. Competitive advertising would encourage widespread deception by professionals seeking business, predictably misleading the layman. Furthermore, certain clients would inevitably anticipate unrealistic expectations from their accountants, creating distrust toward the profession.<sup>10</sup>

The accounting profession's ban on advertising was lifted in 1978, resulting from the FTC's viewpoint that "codes which prevent advertising stifle competition between professionals and thus violate antitrust laws."<sup>11</sup> A government subcommittee on Reports, Accounting and Management expressed the similar sentiment that a ban on advertising discriminated against the ability of smaller firms to compete effectively against the "Big 8." The First Amendment has also been invoked as an argument in favor of "commercial speech" by the Supreme Court since 1976. AICPA Rule 502 now reads, "A member shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive"; and Interpretation 502.1 permits advertising that is "informative, objective, in good taste and professionally dignified."

To date, most literature on advertising for the profession focuses on the facts that: it has not yet been much used as a marketing tool; on a very limited basis, it has proven effective for small firms which advertise tax services to gain individual, rather than corporate, clients;<sup>12</sup> it has not been used in a particularly creative or informative manner by CPA firms of any size;<sup>13</sup> and it seems likely

<sup>10</sup> Michael K. Lowry, "Should CPAs Advertise?", *The Journal of Accountancy*, p. 64, April 1976.

<sup>11</sup> J. B. Wilkinson, "Advertising Passes 'Go': Do CPAs Collect a 'Marketing Opportunity'?", *Akron Business and Economic Review*, pp. 26-27, Winter 1978.

<sup>12</sup> Cf. Robert L. Huff, "Advertising by CPAs—Results of a Field Test," pp. 3-4, *Practicing CPA*, January 1980.

<sup>13</sup> Cf. Gerald A. Hanggl, Jr., "Media Advertising as a Practice Development Tool," p. 54, *Journal of Accountancy*, January 1980.

that most firms will resort to advertising in the next few years as a defensive measure with the tightening market and as a means to announce new services.

Generally, "institutional" advertising is considered the most valuable form of advertising a CPA firm can use today: the firm sponsors or is associated with an event or topic in the public interest—for example, sponsoring a "Meet the Press" television talk. Institutional advertising crosses over into the area of public relations since the goal of each is to enhance the image of the CPA firm rather than to sell services directly. When the firm is seen as the sponsor of services to the public which are useful and desirable, the firm is likely to be perceived, in the services it offers directly, as a provider of services which are useful, desirable and principled.

Since it also seems likely that many public accounting firms will grow by offering new or extended services, it is important for the entire profession to be committed to developing services which are useful and desirable. Otherwise, the basic hollowness of services invented to compete in a rugged market will be perceived; the SEC's vigilance regarding extended services will have repercussions; and the accounting profession as a whole will suffer. Because CPA firms will increasingly differentiate themselves through the services they develop—becoming known principally as tax specialists, for example; or as data processing experts; or as particularly strong in auditing techniques—advertising *per se* will become an increasingly effective method of publicizing new services and fields of expertise.

## Selling

Who becomes the accounting "marketeer" in this marketplace? Some large CPA firms have already developed articulate, poised and socially gifted personnel who are sent to represent the firm to potential buyers: these selling teams, who are excellent at creating rapport and chemistry, have caused concern to buyers who wonder about the professionals who will actually service their accounts. On the other hand, it is also not always best to send only those professionals who will directly service the account since, no matter how excellent their industry and technical skills, they may lack the requisite marketing gifts to win the engagement. Perhaps the best selling strategy is to marshal a team combining articulate marketing personalities and technical specialists. The articulate can be given some management responsibilities for the account, particularly for keeping open and responsive the channels of communication between the CPA firm and the client, while the specialists can provide excellent direct service.

Ultimately, however, who should be responsible for designing marketing strategies? Given the changing mar-

ketplace, the heated competition, and the fact that accountants have not traditionally been required to respond to today's marketing challenges, CPA firms have the option of hiring experienced marketing specialists; those who are unfamiliar with the accounting profession but who are expert at the techniques of strategic marketing. Finding experts in the strategic marketing of professional services is difficult in itself since the field is such a new one; but it is worth mentioning that the banking industry has had good results in hiring marketeers from the hard goods area. Generally, their work has been to "humanize" the public's image of banks and the banking profession, while doing the requisite testing and research to suggest the development of specific new services. It seems likely the accounting profession, in general, will undergo a similar image transformation in which the profession becomes more accessible and understandable than previously; and it seems that new services will come to be offered which are interesting and helpful.

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## ***... the efficacy of marketing techniques must not override professional ethics, ...***

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In the hiring of professional marketing strategists, accounting firms will have to monitor carefully their work in terms of preserving professional ethics. This will require balancing marketing creativity with good professional judgment.

## Conclusion

Having made the point several times that the efficacy of marketing techniques must not override professional ethics, let us add: the warning bell has sounded. The Victorian age of public accounting is over. We have a new vocabulary, a new course of action: we can market, sell, bid, compete. The actions available to us allow us a wide leeway in the strategic marketing of services. And so, we must market assertively, boldly, with forethought—but in ways which do not belie our commitment to a system of values for which, precisely, the public requires our services.

This will be no easy task, and it will be interesting to watch the development of new services and new markets, new techniques and new strategies, as the fight for the marketplace is waged. This much is sure: those CPA firms which evidence innovative thinking, vigilance, aggressiveness and fine quality service will grow and prosper. However conflicting these qualities sound, they will be the requisite "mix" for success. □