

BUSINESS VALUATION UPDATE

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Building a Successful BV Practice Within a CPA Firm

By Robert E. Kleeman Jr., CPA/ABV, ASA, CVA

In the more than 40 years that I have been providing business valuation services, I have started several practices from scratch and have assisted several CPA firms in building successful business valuation practices. During that time, and while working with the various practices, I have found five fundamentals that can spell the difference between success and failure of a valuation practice within a CPA firm.

1. Understanding the fundamental differences between a traditional accounting practice and a business valuation practice.

A business valuation practice is not the same as a traditional accounting practice, and, until there is an understanding of those differences, successfully building the BV practice using traditional CPA firm methods will be difficult, if not impossible. First, let's look at the differences in clients. The traditional attest or tax client is what has always been referred to as a "legacy client." If a CPA firm does a tax return for John Doe, the firm can expect to see him every year. If the firm provides an audit for Widget Manufacturing, the work can be scheduled knowing an audit must be done every year. Once the firm acquires the client, there's an expectation to keep that client indefinitely, assuming the service is meeting the client's needs at a reasonable fee. In fact, it is hoped that the legacy clients grow so the CPA firm can grow with them.

Unfortunately, there is no such thing as a "legacy client" in the BV practice area. Sure, we may work with some of the same law firms regularly, but

it is the underlying client of the law firm that is really our client. In my years of practice, I think I can count on the fingers of one hand the number of underlying clients for which I have provided valuation services for more than five times over any period.

There also are significant differences in marketing BV services versus traditional accounting services. The IRS requires the filing of a tax return. Lenders require audited or reviewed financial statements. Clients understand these issues, but they don't understand why they need a business valuation. They also don't necessarily perceive value in BV services. Why do they need anything but the low-cost provider? What benefit do they get from a well-prepared valuation report?

There is little internal cross-selling of BV services. If the CPA firm currently provides audit services to a client, the firm probably can't perform any BV services. In fact, when I was with Clifton Gundersen, we found that less than 5% of our BV services came from internal client relationships.

Another key factor is that, in attest services, the client is retaining the *firm*. That is quite different than in the BV practice, where the referral source and/or the underlying client is really looking at the *individual*. It is the individual that will ultimately be the person providing the testimony on the valuation, not the firm. The referral source needs to know the capabilities of the individual that will oversee the engagement, not the qualifications of the overall firm.

Marketing the BV practice has a different focus. We really don't market to our underlying client;

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we need to market to their attorneys and other advisors who will be telling the underlying client that it needs the valuation. Therefore, the traditional marketing initiatives you see in a CPA firm are rarely successful in the BV practice.

It has been said that, in selling traditional accounting services, if you don't sell your services after three or four direct contacts with the potential client, you probably will not sell services to that client. The BV/litigation practice does not normally have contact with the underlying client but instead must be in contact with the potential referral source. In the BV/litigation world, you need to have close to 10 to 12 contacts before you know whether you can be successful with that referral source. The referral source may not need your services for any of his or her clients today, but you need to stay in front of that referral source so that, when he or she does need your services, you are still fresh in his or her mind. For this reason, speeches, articles, and other methods of keeping your name in front of the referral source are key to long-term success.

2. Commitment to the practice

Success will require that the CPA firm make several long-term commitments. Without these commitments, there is little or no probability of building a BV practice line. First is the need to make a commitment that the practice will be a full-time activity for the firm. I have written extensively about the need for full-time practitioners. The BV world has evolved significantly, and you just can't stay up-to-date when you do two or three BV engagements a year. You can't just shut down the practice during the busy tax season—successful BV practices must operate 12 months of the year.

My friend, John Borrowman, wrote a wonderful piece in his business valuation newsletter. The piece was titled "Fire, Give Me Some Heat, Then I'll Give You Some Wood."¹ That article spells out

¹ John Borrowman does business valuation recruiting and consulting through his firm, Borrowman &

some of the same issues I raise in this article. But an important point of John's piece is that you must put some wood on the fire before you get the heat. It doesn't work the other way around. Returns come after the investment, not before.

It takes a significant time commitment to start a BV practice and to expand an existing practice. I can't think of anything that will hinder the growth of a BV practice more than setting practice milestones that have unreasonable time goals. As I discussed above, the BV/litigation practice is a different animal than the traditional CPA practice. The day you sign the engagement letter for a BV or litigation project may be several months before work begins. As I write this article, I am working on a bankruptcy project where the initial engagement letter was signed 12 months ago. More than 60% of my work to date on that project has taken place in the last four months. I have another signed engagement letter on a very large valuation/shareholder dispute matter where the engagement letter was signed in August 2017, and, to date, little or no work has been done due to various court proceedings that need to be resolved before the valuation goes forward.

Too often, I see firms that want to start a valuation practice and have an expectation of billings of \$250,000 in the first 12 months. I hate to say this, folks, but that will not happen. I also see strategic plans for an existing valuation practice that predicts doubling fees every year for the next three years. That's probably a recipe for failure also. This type of practice takes a long time to develop. Yes, once you have a long track record of providing quality services in the BV and litigation support area, you will notice that the clients are coming to you, rather than you chasing them. But this only happens after a long period of demonstrated quality of work and a commitment to a full-time practice. Unless the firm is willing to make a long-term time commitment to

the practice, there is no use in pursuing a service that is bound to fail.

There must also be a commitment to fund the operations over a long period. Think of the long-term financial commitment you or your firm has made in your general accounting practice: people, space, equipment, accounts receivable, work-in-process. You don't really notice these expenditures because they are part of what you consider "normal" for the growth of the legacy practice.

If you are starting a BV practice from scratch, or from a small base, you are facing a significant financial commitment if you expect to be successful. You have new staff issues, different training issues, different resources. Receivables and work in process are also different. Charge-hour goals for partners are reduced basically due to the need to be marketing the services, rather than just performing them.

As your BV practice grows, you will need staff members, and they must believe there is a place for them to succeed in the practice. If you cannot demonstrate that there is upward mobility for your staff members, you will eventually lose them to a competitor. The biggest reason that BV personnel change jobs is that they don't see a pathway to success in their current environment. If you think about the dollars spent on training your staff members, this is an expensive cost to the practice when they leave.

Finally, your commitment to the overall practice must include a well-thought-out and definable strategic plan, not just for the next six months, but for the next five years. It is very easy to set up a strategic plan if you don't have to be the one to make it successful. If the BV partners and staff don't believe the plan is doable, then the plan is worthless. This plan should be driven by the BV personnel and confirmed by the firm partners, not the other way around. The real problem with creating the strategic plan is that none of the firm partners have ever done this before and have

Baker LLC. The article can be found in the 4th Quarter 2016 issue of *Your Business Valuation Career*, at borrowmanbaker.com.

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no experience to support the plan. This is a very good area to look to outside assistance. “Been there, done that” is a great basis for looking at the future and how to make your practice successful. (*Editor’s note: See the sidebar for a recommendation on a strategic planning model.*)

3. Commitment to the practitioner

From the perspective of the CPA firm, the first step in building the BV practice line is determining who will be the leader for the practice area. Sad to say, this is not the place for a senior partner in the firm who is looking for a way to slow down prior to retiring. The practice leader must be somebody who will embrace the long-term objectives for the practice and has the “fire in the belly” to tackle the myriad of challenges that will be faced in order to build the successful practice. Also, a very different skill set is necessary for the BV and litigation service practice leader. Strong writing and speaking skills are an absolute necessity. So is a temperament that is willing to accept the fact that there will be significant challenges to your conclusions. If you have never been cross-examined in a courtroom, you

don’t really understand the stress levels associated with that task.

The actual leader of the new BV practice might not even be part of the firm today. Many times, it is clearly better to bring in an outsider to start and build the practice. If the BV leader will devote full time to the practice, then you will have to transition his or her current clients to other members of the firm. Sometimes, this just isn’t in the best interest of the firm. I can tell you from experience that trying to build the BV practice while still taking care of tax or audit clients is a recipe for disaster. The BV practice doesn’t get the attention it needs, and the existing tax or audit clients don’t feel they have the full-time attention of the partner. It is a lose-lose situation.

Whether someone from inside the firm transitions to the BV practice or new talent comes in from outside, consider the idea of having a “mentor” for the practice. Think about what happens daily in a typical CPA practice. If you have issues regarding tax or audit, you can “bounce” your ideas off of your other partners and senior staff. If you are starting the BV/LS practice, who will be available

Check Out the GOSPA Planning Model for Practice Development

During a workshop at the AICPA FVS conference in Atlanta, the presenters recommended using the goals, objectives, strategy, plans, and activities (GOSPA) model for business valuation practice development. GOSPA involves taking specific steps toward an overall goal, starting with a mission statement. It’s a generic model and is somewhat like Peter Drucker’s management by objectives model. Valuation experts Bob Gray (Gray Schrupp & Associates) and Rob Kester (Blue & Co.), who presented the workshop, have seen GOSPA in action and had workshop attendees come up with plans for their practices using the framework. One attendee had just joined a CPA firm with the goal of building the firm’s part-time forensics, valuation, and litigation support practice into a full-time operation. His stated objective was to achieve \$1 million in revenue in five years, and the plan was to bring in a full-time valuation expert with seven to nine years of experience (not easy to find). The activities part of the process requires taking specific functions and assigning them to specific individuals, such as conducting CLE sessions for attorneys. Other attendees had plans to develop some niches, such as intellectual property and ESOPs work. The plans were good, but a common critique was that they did not put enough specific completion dates into their plans. When you do this, use calendar reminders to keep track of the dates. You can find out more on this process if you Google “GOSPA planning.”

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inside the firm to be that sounding board or to provide guidance on the practice? Probably no one. Bringing in a part-time, short-term mentor for the practice is usually money well spent.

Also, this practice area cannot become an “eat what you kill” assignment for the leader. If you will do that, why do you need to build the practice within the existing firm? I can’t begin to tell you how many times I have seen this attitude in place, and the ultimate resolution is that the person in charge of the practice decides that, since he or she is shouldering all the risks, why not do so in a practice in which he or she owns 100%? If this practice area is successful, then all the partners will benefit, so why put this burden on the development of the BV/LS area?

All the existing partners need to understand and buy into the idea that this is a different practice area than the traditional accounting practice. Some of the most significant differences are in the areas of charge hours and billing rates.

The person responsible for developing the BV/LS practice will not have a charge hour goal of 1,600 hours-plus a year. This just doesn’t work. Think of the charge hour budget as a balance scale. On one side is hours chargeable to clients, and on the other side are administrative, marketing, and training hours. If the goal is 2,200 hours of total time per year (excluding vacations, holidays, etc.), then you need to determine how many hours are on the one side of the scale and how many are on the other. Reality is that, in a new and/or developing practice, a chargeable hour goal of 1,200 is probably the maximum for a partner. It is not uncommon that the charge hour goal is more likely in the 800-to-1,000-hour range. The partner in charge of the practice area will have to spend considerable time on marketing the practice, training staff, and other development issues. You can’t compare the BV partners charge hours with those of a tax or audit partner. The tax and audit partners have legacy clients—they don’t need to be out there daily trying to find new referral sources and new paying clients.

However, a corollary to this lower charge hour budget is that the BV/LS partner should have one of the highest billing rates in the firm. It is not uncommon in small firm, local practices for the BV partner to have billing rates more than \$250 per hour. In larger metropolitan areas, those billing rates are routinely in the \$350-to-\$500-per-hour range (for experienced practitioners).

Look at the issue of pricing your services. In building the practice, it is easy to say, “Let’s lower our fees to get more work.” Beware that, if you become known as the low-cost provider, your competition will always be other low-cost providers. You must resist the temptation to take on engagements below market value just to generate revenues. If you are providing valuation services for \$5,000 per engagement when that engagement should be billed at \$12,000, you are not doing your firm any favors. When it comes time to bill what the engagement really requires, you will be saddled with the history of low-cost valuations. Do you want to complete 40 \$5,000 valuations, or would you rather do 20 \$12,000 engagements? You already know the answer, so why even think about starting at the low end and having to grow your fees later?

I recently had a discussion with a firm that wanted to expand its existing BV practice. It was doing about eight to 10 valuations a year, at an average fee of \$6,000 each. I looked at the actual work it was performing and told it that, in its market, those valuations had a value of about \$12,000 to \$14,000 each. In short, the firm was leaving \$50,000-plus on the table each year. As we discussed how to get to the higher fees, the comment was that “we don’t want to compete at that level; our existing clients won’t pay those types of fees.” Well, that might be right, but, if it is true, then the firm has the wrong clients and, over the long term, will not be successful in the practice.

4. Commitment to provide the tools

The firm may be committed, and the practice leader may be committed, but success still

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requires the appropriate tools. The most skilled tradesman cannot perform his services without the right tools. Many times, the firm that wants to grow the BV/LS practice does not want to invest in the proper tools. No tools, no success.

Let's be honest: Library and research materials can be expensive, but, at the same time, they can be very inexpensive. As the practice grows, these costs get spread over more engagements, which lowers the per-unit costs. In addition, having the proper research tools can assist you in creating more detailed and convincing reports. If your referral sources see the quality in your work product, you are more likely to get additional engagements from them. You don't need to have "every" research tool available at the beginning, but, if you know what the best tools are for the startup, you can purchase those and then add to the library as you grow.

Continuing education, staff training, and other costs (related to certifications) are also necessary. Consider the fact that business valuation is not a science but is an opinion or judgment of the appraiser. The more the provider can learn, the better that judgment gets. It is important that BV/LS staff attend CPE events where other practitioners are present to discuss the how-tos and the whys of the practice area. I am not a fan of online or self-study CPE except for the very experienced. I think that the interaction with other BV professionals may be as important as the classroom setting itself.

This may seem as if I'm saying the same thing twice but consider using mentoring activities in the development of your practice. If properly used, the costs incurred for the mentoring process come back to the practice manyfold. This mentoring can be both on-site, face to face, as well as off-site, using telephone and email. The best is a combination of both. Issues such as report presentations, technical questions, and creation of templates are all necessary. When I was with Clifton Gunderson, a good part of my time was providing mentoring services to our staff and other partners. It is very

important to have somebody to talk to about your concerns and issues. I am lucky enough to know many of the giants in this industry and can pick up the telephone and discuss an issue with them, and they know they can call me for the same reasons. Unless you have a cadre of resources, the mentor can be of invaluable assistance to the growth of your practice.

Let's not forget the marketing costs. It is essential that your practice leader become involved with the local bar association, as well as other entities that may lead to valuation and litigation engagements. Don't forget the potential of sponsorships of golf outings or other bar activities. Don't just spend the money; make sure that appropriate people attend the functions. Writing articles for local use is another valuable way of gaining clients. Remember, this is a personal service an individual provides. Your referral sources want to know you can walk, talk, and chew bubble gum at the same time. I personally am not a fan of social media. Perhaps part of my reticence is that I didn't grow up with the internet as part of my world. But, in talking to my referral sources, they indicate that the only time they rely on something on social media is when a published article addresses something they are interested in. Just referencing somebody else's article doesn't do much for your marketing.

5. Commitment to success

This might seem like a strange item to list as a fundamental for building a successful BV/LS practice, but it is the area where most firms fail in that goal. Have you ever seen a company put together a pro forma that shows over the long term that it will go bankrupt? Of course not. We all believe that, when we start an endeavor, it will be successful. But are you really committed to that success? Let's look at some key points that are necessary to provide every opportunity to succeed.

Set goals. Set short-term and long-term goals and provide timely measurement toward the

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attainment of those goals. It is easy to sit around and say this is what we will do, and this is how we will do it. But those goals need to be put in writing, agreed to by all the key players, and monitored regularly. Goals are not stagnant—they are fluid. As you measure your achievements toward your short-term goals, you need to modify both those short-term goals as well as the long-term goals. If you are exceeding your goals, great, but why? What about if you are not meeting those short-term goals, why, and what do you need to do to get back on track? Goals should always be a bit of a reach, but they must be attainable so that there is a feeling of success when that happens. Make the goals reasonable—saying I want a \$5 million practice in three years is probably not practical if you are starting from scratch and not intending to buy a practice. Look at both organic and purchased growth as part of your strategy. Not interested in the purchase side? Then understand that the goals must be set for strictly organic growth.

Don't expect miracles. Building a BV/LS practice takes a lot of time and patience. It takes time to acquire the client, it takes time for the work to begin, it takes time to produce the work, and finally it takes time to complete the engagement. I usually counsel firms that are trying to start a practice to set a realistic goal that it will not be profitable for the first 18 to 24 months. At best, it will cover costs during that period. Remember what I said earlier: A BV/LS practice is totally different from the traditional legacy accounting practice. You can't manage a BV/LS practice with the same metrics as the legacy practice—they are different animals and need different care and feeding. However, once you get the BV/LS practice properly running, it can be a very profitable addition to the CPA firm.

Focus on staff. Always keep in mind that, as you grow, you need to be proactive in adding and developing staff. Finding experienced BV practitioners at any level is a very difficult task. Add to that the fact that it takes time to find and ultimately hire experienced staff, and you are faced with

the fact that you need to be looking for your next staff member before the practice really needs that person. Scores of trained BV professionals just aren't out there waiting for someone to hire them. The opposite is true: There is a true lack of talent. The practice area is growing faster than the underlying pool of talent. You can't find a person with five years of BV/LS experience that has been out of school for three years.

Seek help. Lastly, don't be afraid to seek help. Starting and growing a BV/LS practice is not a normal occurrence in the life of the average practitioner. Talk to experienced professionals and get their take on the local market and opportunities. This means the legacy firms also. Perhaps they don't want to have a BV/LS practice but would be happy to refer that work to a firm they know won't try to interfere with the existing client relationship. Talk to older practitioners because they may be looking for an exit strategy and your interest in starting or growing a BV/LS practice can be part of the exit strategy. Talk to existing referral sources. Who are they using? Are they interested in having additional resources in the area? Usually the answer is yes, most referral sources want several providers—they don't want to be faced with little or no choice. Is a mentor right for your practice needs? Maybe not, but don't just dismiss the thought. Properly used, a mentor can be a very cost-effective way to grow the expertise you need to make your practice very successful.

There is no "magic bullet," no "set formula," or any other assurance of success. This practice area takes hard work, a lot of marketing, and time to build. Frankly, not all CPA firms should be in the BV practice area. If the firm has the desire to excel in this new practice area and is willing to make the commitments necessary for success, there is no reason not to add a BV/LS practice to the existing legacy practice. ♦

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