ConvergenceCoaching, LLC
Inspired Ideas Podcast:
Solving the Capacity Challenge

Tamera Loerzel: Hi, welcome everybody. This is Tamera Loerzel with ConvergenceCoaching, and I am excited to be here for our second episode of our Inspired Ideas podcast. With me is my best friend and colleague, Jennifer Wilson, and we are here to continue our dialogue from our first episode where we explored the change imperative and all the change facing firms today. In that podcast, we committed one of our next immediate follow on topics was to explore the capacity challenge and how to solve the capacity challenge. Welcome, Jen.

Jennifer Wilson: Thanks, Tamera. I'm glad to be here.

Tamera Loerzel: Great. Awesome. As we look at capacity, I think that's one of the things that you and I probably talk about several times a day either with each other, with every single client, in every conference. Maybe we just start with what do we mean by capacity challenge and what do you think is causing it?

Jennifer Wilson: Great questions and great place to start. The capacity challenge is essentially something that's been going on maybe since the dawn of time in public accounting, but certainly the last two years in earnest, I would say, where firms just feel terrifically understaffed for the work that they have in place during the high volume periods, typically spring and fall, and where their people feel super stretched and really flattened out and borderline beat up and abused when they finish this busy season, including the partners. This isn't just about staff. Everybody feels rough afterwards. We've been talking about it and acting like, well, you know, we're going to solve it. But when you have that kind of a problem occur for several years in a row, it begins to have this hopelessness.

We really feel like firms need to stop talking about the capacity problem and start solving the capacity problem, which is what we thought we would talk about in this podcast. That's a little bit of the definition of it. I also think I just add one more little ripple to it and that is not just the capacity to do the client work that's before us and to get that executed in quality and on time and on budget and all of that, but the capacity to drive all the other changes that we talked about in our first podcast, the change imperative and the changes that need to be made in talent and all of our programs and approaches there in technology, all that implementation and design and work that we need to do, and all that NextGen client experience changes we need to make.

We don't have the capacity to make those. Dang it. That's kind of the problem.

Tamera Loerzel: Yes. Perfect. I think everybody can empathize with that problem. I appreciate you saying that it's an age-old problem, but I think one of the things that's different is that it is continuing not just in busy season, that we are just strangled all through the year and we're for sure struggling with capacity for some of those new initiatives that we want to focus on, new services to clients and your consulting services and all of that. I think one place I want to start, I think people go to hiring. Like we should just hire more. I think we all know that we are short on the hiring. We talked in our first podcast about the idea that we have a shortage of number of people. We could look at the statistics of the number of CPAs graduating.

I think that's one of the things that we've been coaching firms on doing is to step away and almost blank sheet the kind of roles that we need now in public accounting and what kind of roles can we create that are not requiring a CPA or what kind of roles can we create that could start to facilitate some of these other initiatives that we want to work on and structure it differently instead of looking at our staff senior manager levels that we traditionally would hire for and pull out some of those tasks and responsibilities. I think that's one place for sure to start and say how can we restructure the roles and who we're hiring for and back up and clean sheet it. I think that's one idea for firms to address the capacity challenge.

Jennifer Wilson: You're right. One of the reasons we have this capacity problem is because we've had a shortage of CPAs. I think there's a flawed way of thinking that is, I need X CPAs to join us or CPA candidates, but capable of becoming CPA credentialed. Accounting grads. I need X number of those a year, or we as a firm, X a year in order to meet our capacity needs. Those people need to stay and we need to move them up the ranks. We've had this traditional model, and it's always been that way for as long as I've been part of this profession. We're stuck in that thinking. You have a CPA shortage and the answer is yes, we have a capacity problem, but we are trying to find those CPAs. We just have a shortage. Well, okay, good.

Now, let's find something other than accounting grads. If we can't find them and we can't put them in place, as you said, then let's think about what parts of our service delivery processes don't require an accounting degree, don't require a CPA designation. That requires retooling the service delivery process, like re-workflow mapping it and changing who does what. Like you said, it may be a levels change. It may just be that non-accounting grads come in as staff and they still could be seniors, and they still could be supervisors, and they still could be managers, but what they're going to do is different. I'll give you an example.

I keep telling firms, just to illustrate this idea, why don't we think about hiring insurance customer service reps that work in let's say healthcare. They're used to looking at forms that have numbers for different reimbursement codes and they have dollar amounts associated with them and payer numbers and things. There's forms that have fields on these computer systems and they're used to auditing all of that and making sure it's all accurate. Why wouldn't we have them come in and audit, become the reviewer for our OCR scan ahead prep products on the tax side? Why wouldn't we do that? Maybe we would call them a tax review representative or something, or tax preparation representative.

I don't know what you name it. They'd be part of the service delivery process. When I talk about that, firms will say, "Well, okay, so we'll put them in the admin department?" I'm like, no. They're client-facing service delivery people. They're billable in that traditional sense. They're part of the service delivery roadmap or process that we have. They are part of the tax department, and they're trained by the tax department. The next objection, do you know what it is? What if we hire those people in to do that, then how will we train the future generation, the ones that I need to become tax CPAs, the ones I want to be signing returns and things?

Then we say, "Well, make them go through the tax review representative role for six months or one busy season." It's not that they can never do it, but let's not put them in there for three years, which is kind of our current training process.

Tamera Loerzel: Jen, you just made me think that it will help firms prepare for what's coming. As things get more and more automated, we need to elevate our training and what people do when they come in, our accounting graduates when they come in to the firm. This is just laying the groundwork for that so that we're prepared for that. That's coming anyway. Then we'll have to evolve those roles as we go too, but it will lay the groundwork for that.

Jennifer Wilson: Right. Well, the other thing is we're tending to be like a manufacturing production line or something. We're not relational enough with our clients as it is because of capacity. I don't have time. I would if I could. What if our traditional competitors on tax have been other tax guys, but now they're becoming people like wealth managers. Wealth managers are saying, "Hey, we'll help you holistically with your overall wealth management strategy that includes tax saving strategies, and we'll do your taxes." Well, maybe we need to hire finance degree people into our tax departments and start doing the same sort of holistic service, this partnered service together, whether we're doing the actual wealth management or whether we're just helping clients with their overall life planning.

It's a way of thinking where we're not just stuck on accounting grads. We know how important data analytics will be. We need some data analysts. The capacity being stuck on accounting grads I think is one of our challenges.

Tamera Loerzel: Yes, we need to do something different for sure.

Jennifer Wilson: Yes.

Tamera Loerzel: As you look at that and where we're starting people, I think one of the things that firms are looking at, or at least talking about looking at is, what kind of clients should we be continuing to serve? Because I think as you go through that whole workflow and we re-engineer our processes, we start to look and ask, why are we serving some of these clients? They don't fit anymore. They might have fit 10, 15, 30 years ago, but they don't fit anymore. Just like our positions don't fit anymore. Culling clients I think has become something to look at. I think that's another thing. We talk a lot about it, but we don't have the capacity to then make the decisions. It's hard to let go because it is relationship business, but to call the clients. Do you want to speak about that?

Jennifer Wilson: Oh my gosh, yes. Similar to the capacity problem, the issue of culling clients has been raised every year since I've been in the profession. The idea of culling clients; mostly we don't. I don't care what excuse you give me. I don't care. The main reason we don't cull clients is because we're getting paid not to. We have to change compensation systems in our firms to have it. I don't get paid based upon the number of dollars I bill or the number of dollars under my control or in my column. If you don't change that, then culling, the idea of top grading or culling or letting go clients, probably won't be effective. There will be a few company men and women who will be like, man, I'll do it because I know we need to.

But then there's a bunch of others that will hoard theirs even though they're terrible and their clients we should let go of. They just won't because they're comped not to. It's not just annual compensation we need to think about, but also retirement benefits because those that have deferred comp systems based on comp or based on book of business size, the people close to retirement will never call unless they get their values frozen or unless we change the mechanism for measurement. Those are just two things that stand in the way of culling. But Tamera, we've talked a lot about Pareto's Rule, the 80-20 rule, where 80% of your business comes from 20% of your clients.

There's a new rule. I need to research who in the heck came up with this rule. It’s on my list of Google searches, but it's called the 50-10 rule. I keep hearing it, and it's 50% of your business comes from 10% of your clients. Now, like I said, I don't know whose rule that is, so I don't even know if it's fully valid, but most of the clients we've done the 80-20 analysis with, it's true. If 80% of your business comes from 20% of your clients and the volume of your business is what's killing you and that is what's killing most CPA firms. We call it minnow management. It's a little bit like being in the sea. We're all swimming around looking at the cool big fish, but twice a year a huge school of minnows come swooping through and it disorients us and turns us all upside down and makes it all bubbly.

We can't see any each other or them. we just try to manage and stay alive during the minnow whoosh. Then once that wish is over, then we all reorient and start sort of trying to be back in this cool ocean and see cool things and do cool things. Then the minnows hit us again in the fall. I don't know why firms are doing that. There's a bunch of things we could do with those minnows. One of them is culling. Why don't you talk for a minute about some of the kind of how tos of culling? Like what are the first steps I could take if I were thinking about culling or top grading my clients?

Tamera Loerzel: Yes, I love this topic. The process is easy. If we can get through the process and we can make the decision and figure out comp... I'll figure those things out because what we need to do is, first of all, if we have a clear vision in who our ideal target clients are, who do we want to be serving five years from now, seven years from now, maybe even three years from now? What kind of clients do we want to be serving? Then we can step back and say, "Okay. If we look at the mix of our clients, how many of those clients, which clients fit those ideal target clients?" Then there's going to be another pool that might have potential for those clients. We can go through and do a rating of those clients.

It's not just on ideal target client, but that's one place to start. But then as you start to assess your clients, you can then also assess on profitability and billing and some of the normal metrics that we might think about when we think about client assessment. But then we would rate clients on fun.

Jennifer Wilson: No doubt.

Tamera Loerzel: Lack of abuse. Maybe those are tied, but there's like a no tolerance factor. Opportunity for growth. Are they using more than one service? What's the minimum volume? Is there a succession opportunity? It it one time project or ongoing projects? There's other factors that you can add. We just use a spreadsheet. We figure out what those factors are ongoing, and then we can assess those clients, and then we can start to make transition plans. We're not going to do this overnight. Firms that really do this, we've worked with that have done this, they can easily see there's this low hanging fruit. It's like we need to call these immediately. You pointed out, Jen, transition or succession is a time to do that.

That's the number one place to start is if we have people that are transitioning for whatever reason, then we can look at their clients there. We need to do it before they leave so that we're not trying to do it on the backend. Sometimes we see firms say, "We'll wait until they leave and then we'll do it," and that is just painful for many reasons. That's the first step is doing the assessment. You can't do that by yourself. Jen, you could go through and assess your clients, but then somebody has to review it because you're tied to them. You have a whole bunch of history. We need to have somebody else that's going to facilitate that.

Then we can identify what the communications plan is around it, whether it's phone calls or letters or a combination of those to say this is how we're going to transition. The other thing you can do, and only do this if you're going to follow up, get input from your staff or your managers, your engagement managers. Who should we be culling? Who should we no longer be doing business with? But if we do that, we have to make sure we're going to act. If we're not going to act, we have to have a really good viable reason. But the flip side, I said there might be potential and upside.

Sometimes when we go through this exercise, we can see how we can elevate clients. We haven't spent the time.

We haven't had the capacity to make them from a C to a B plus client, and we could do that if we actually invested in them. We can start to see opportunities there. Get your managers involved. It does not have to be a partner. I think that's another mistake that we make is we think it's only the partners that can do that. That's a way to create leverage too, by the way, is I can start transitioning client relationships to senior managers and manager level people. Those are some immediate steps that you could take to start calling and having that be an ongoing process. We would do that twice a year after each peak period is a good rule of thumb. It's fresh in your mind. You know when you could call them then.

Jennifer Wilson: That's all great, Tamera. I love all that. I want to underscore a couple things. One is fun. If we want our people to stay working at our firms, we can't have clients who are absolutely no fun. We can't have clients who are mean or demeaning or abusive, or their environments are horrible to work in, or they nickel and dime us, or they're shady in practices, or any of those things. Those people should be packaged up and given as a gift to our most favorite competitor locally, by favorite I mean the one that we feel like we most wish would have those clients. We can just send them onto the street and let them find their way to someone else because we should not keep them.

That's an anti-retention strategy of your staff if you keep poor clients or you ask them who to cull and you keep bad ones who just have bad behavior. Those folks need to go. People who don't pay you. If we have any slow pay or no pay clients, we like to say that a client who doesn't pay you is not actually a client because the definition of client is they pay us for our services. If they don't pay you, I don't know why we're talking about this, they should be gone. I know there's lots of reasons and there maybe AR tied up in it or whatever. Too bad. Those folks probably should go. I also want to say don't think you're calling your clients if you are going to raise fees on them.

A lot of people will say, "I know how I'll get rid of them. I'll triple the fees," right?

Tamera Loerzel: Yes.

Jennifer Wilson: I'll do 10 times fees. Then I say to them, well, that never works. Clients that you most want to get rid of when you raise the prices even exorbitantly, they will stay. Some CPAs will say to me, "Well, then problem solved." I'm like no. No one likes them. They're an anti-retention client for you in terms of staff. You might be making more money, but we don't have any more capacity to serve them than we did. The money doesn't buy the capacity per se. anyway, those are all sort of tricks that I hear people say. The last one I'll share on calling that we just can't do is some people will say to me, "Well, you know, they're on extension, so we can't call them until we file the extended return. Then we need to bill it and collect it and then we get back around to January.

I can't let them go in January because, you know, that's when we start the new cycle of service." I'm like, wait a minute. First of all, if we make a decision to cull them, then tell them, "Sorry this is our last year filing for you. We'll file and we'll collect at the same time. We're not going to file until we collect for this return, and we are going to have to have you go somewhere else." We always tell people when you're breaking up with a client, you do it just like you were taught to break up with a boyfriend or girlfriend. It's not you. It's me. It's us. We really don't have the capacity. Our firm has grown rapidly. We haven't been able to add the headcount. We've had to make some tough decisions about who we can continue to serve.

At this point, we're going to have to resign from serving you. We've appreciated the business, and we have some local folks that we can refer you to if you'd like and we'll be very cooperative in helping you get to your next home. Thank you very much. You know, like that. Anyway, its...

Tamera Loerzel: And, don't break up over text.

Jennifer Wilson: No, probably not. No. We have a letter. We have a sample letter. Tamera, you mentioned a grid that we have for rating the clients, which by the way has a million rating factors. We wouldn't want you to rate them on all those, but we gave them to you. If you guys want them, our contact information is somewhere at the end of this podcast or somewhere attached to the podcast. Reach to Tamera or I and we'd be happy to provide you those tools.

Tamera Loerzel: Yeah, absolutely, and some articles on how to continue that process for sure. I was kind of joking when you were talking about that like this idea of technology and I think that's a way to create capacity also. Part of it is if the clients don't have the technology that we say we're using, we have to stop doing exceptions. That would be one of the criteria for calling. As you look at that, what kind of technology are we using to create efficiency. You said OCR and scan ahead and there's other technologies from a workflow management perspective, and even going through a lean process improvement, which looks at technology, but also your workflow, which will help you define new roles that we talked about that's very tied to all of those examples.

But I think those are places to look from inefficiency to create capacity. What are your thoughts about that?

Jennifer Wilson: I agree. With all of what you said and then also like technologies on the audit side, the data analytics tools that are out there, the ability to export data to some of these tools now that are available for testing transactions and finding exceptions, the AI is getting better. We're getting all kinds of cool reporting tools that can save us time. Cloud, of course, is a big savings, especially on the client accounting side, but really serving clients more remotely can buy back capacity. No longer commuting. No longer having long travel times. Minimizing the amount of time on the road can help us and technology, of course, is required for all of those things.

There isn't any doubt that technology is a big part of the capacity buy back, if you will. Firms have to be figuring that out. I think also, Tamera, a couple more capacity saving strategies or expansion strategies, if you will. When we do this Pareto's Rule and we examine our big fish and our little fish, the minnows, we may decide that we don't want to cull certain small clients that are very simplistic in service, let's say simple 1040s, but they're tied to other things or we just don't want to call them because they're good people. We would say segregate them. Create segregation of service. On the real small simple stuff, segregate them and put interns and first-years on them. Put some of those non-accounting grads on them.

Put some non-partners in charge of those pools of simpler work. Let those people manage those. It can be big revenue sometimes for a firm. It could be a million or $2 million. It could be big. Those people get a big opportunity to manage kind of a big book of business, but it's the simpler stuff. They're focused on people and process and workflow and quality and output, but we take all those simple things out of the hands of our partners, out of the hands of our higher level senior managers and managers who really shouldn't be working at that level.

That's another capacity buying strategy because then we open up that top end capacity to do other things like business development, people development and change management, which needs to happen. Then we have outsourcing and offshoring. Those are other two big ones.

Tamera Loerzel: There's a lot of players that are really starting to build practices around the outsourcing and just finding opportunities. They're getting to capacity. They can only take so much too and that's something to get ahead of as we're recording this podcast right now. We're looking at fall wrapping up here. We need to figure out what those outsourcing opportunities are and at least try it. Group it together like you said. You could try some of these different strategies and then figure out which ones are working. I know some firms that did some outsourcing last year are like, "We need more." They're already trying to schedule more of that for capacity.

I think the other thing just to touch on is looking at how we're measuring. I think that's another change that we're seeing that we need to shift away from just measuring based on hours, which is our traditional way, and that we look at capacity. You were talking about number of CPAs that we need. We're looking at number of hours that we need and how do we facilitate creating capacity. If we start moving away from hours only or we would like to move from hours and talk about how do we measure based on output, how do we measure based on parts of an audit complete or number of tax returns or number of accounting clients or number of payrolls managed, then we can start to look at what do we need in order to produce the results that we need and how can we increase that year over year.

I think that's another way. I don't know if you have anything else to add on that, but I think that's a measures piece that can help us as we're looking at this capacity challenge.

Jennifer Wilson: Well, big time. I mean, NextGen talent don't like the word we need more hours or we need more time, but we might have more volume that we need to move. We need to focus on those outputs or results, Tamera, and start measuring output. That does move us into more of a manufacturing type paradigm where we start to say maybe for tax returns we're going to rate them A through F in difficulty. The most difficult ones take a lot to prep and a lot to review. The simpler ones take very little of both and then maybe we try to begin to calculate how many simple return could these people do and expect that much output, again, to measure people based upon those outputs.

Now, we have to be careful with that too because the quality of a relationship matters, and we're trying to build relationships with these clients and become more advisory and use more query and learn more about them and those things are hard to measure in those per piece measurements, if you will. You have to have these qualitative relationship measurements, like number of services per client. You mentioned that earlier. Those kinds of things that we... Maybe net promoter scores for the relationship piece that we couple with those output-based measures that come together to be our new public accounting measurement system. We probably have a podcast we need to do on that, Tamera.

Tamera Loerzel: I think so. I was just going to say, as you can tell, we're a little passionate about this topic and we could probably go on forever. But I think what we want to leave everyone with is while there is a capacity challenge and it's real and it's felt at every single level in the firm and every single firm that we're encountering, there are solutions. We try these solutions. Pick a couple and figure them out. Yeah.

Jennifer Wilson: Well, I have one more. I can't let you wrap up. I can feel you're wrapping up, Tamera, but I don't feel like we can let them go without talking about service line specific cross scheduling or at a minimum, just scheduling, right? Having a scheduling project. Scheduling the work and not letting partners directly assign work to staff. That's in the small firm paradigm, as I walk out of my office and I just use these people because I like them or whatever, right? But when we get to be bigger and we get to be multiple office, we can really have inefficiency, and we can really end up like squandering capacity. Here's how we do it.

We do it that we're like managing assignments by geography, instead of saying, "Hey, who are all the people on the audit side and how can we use them across the firm on all these audit jobs we have?" Especially as we move to more remote work, this becomes easier to do. But we really worry about firms who say, "This office needs to hire three tax people or whatever," and we're like, yeah, but that office has three tax people with capacity and you're not using them. That's the other sort of thing. It marries technology with workflow, with a change in philosophy, and with remote. I mean, it's all of these ideas but, but scheduling our resources across the firm by service line. Some firms will just schedule by geography and that messes them up.

Some just schedule by industry. If you have a really big industry group, you can do that. But when we have industry groups that don't have that much volume, we can't dedicate people to industry. They need to work across industry in order for us to maximize capacity. We see a lot of scheduling mistakes, if you will, or a lack of scheduling. That would be my... I just couldn't let us go without talking about that one too.

Tamera Loerzel: Well, and I think it ties back to the whole lean and workflow process like we were talking about because you can't do those processes without identifying that and that really takes discipline. We talked about the whole resistance to change and I think that's one of them. I'm glad we said that because we have to be disciplined to consistently schedule, and I can't do it my way for my clients with my favorite people. It doesn't create the leverage, and it's not fair to the people. That's not an engagement strategy either because there's going to be an unfairness about what kind of opportunities people have. I think that's a fantastic point. Any other thoughts before we wrap up?

Jennifer Wilson: Just that I think we also have a podcast all about change resistance and all the reasons people resist and how to overcome it. While I was talking about all that, I could just hear all the, yeah, but, well, wait a minute.

Tamera Loerzel: Exactly.

Jennifer Wilson: For those of our listeners here, these ideas are real and they're valid and there's people that we know doing them. We'd be happy to connect you with them if you reach to us. You can overcome the resistance. Don't be resigned. These changes can be made and you can manage this capacity challenge. You can solve it, and we're excited about seeing you solve it. We know you can do it, and those that do it I think win the game. I think those that do it are going to win this next phase in public accounting.

Tamera Loerzel: Absolutely. I think we'll have some industry leaders come and talk to us about how they have helped people transition through that resistance and how they've facilitated change. I think that would be a great next podcast. We've got lots of ideas for future podcasts, and we're glad that you participated in this one. Thank you. We look forward to our next one. We've got lots of topics, so we look forward to seeing you next time. Thank you for being here.

Jennifer Wilson: Thanks, Tamera.

