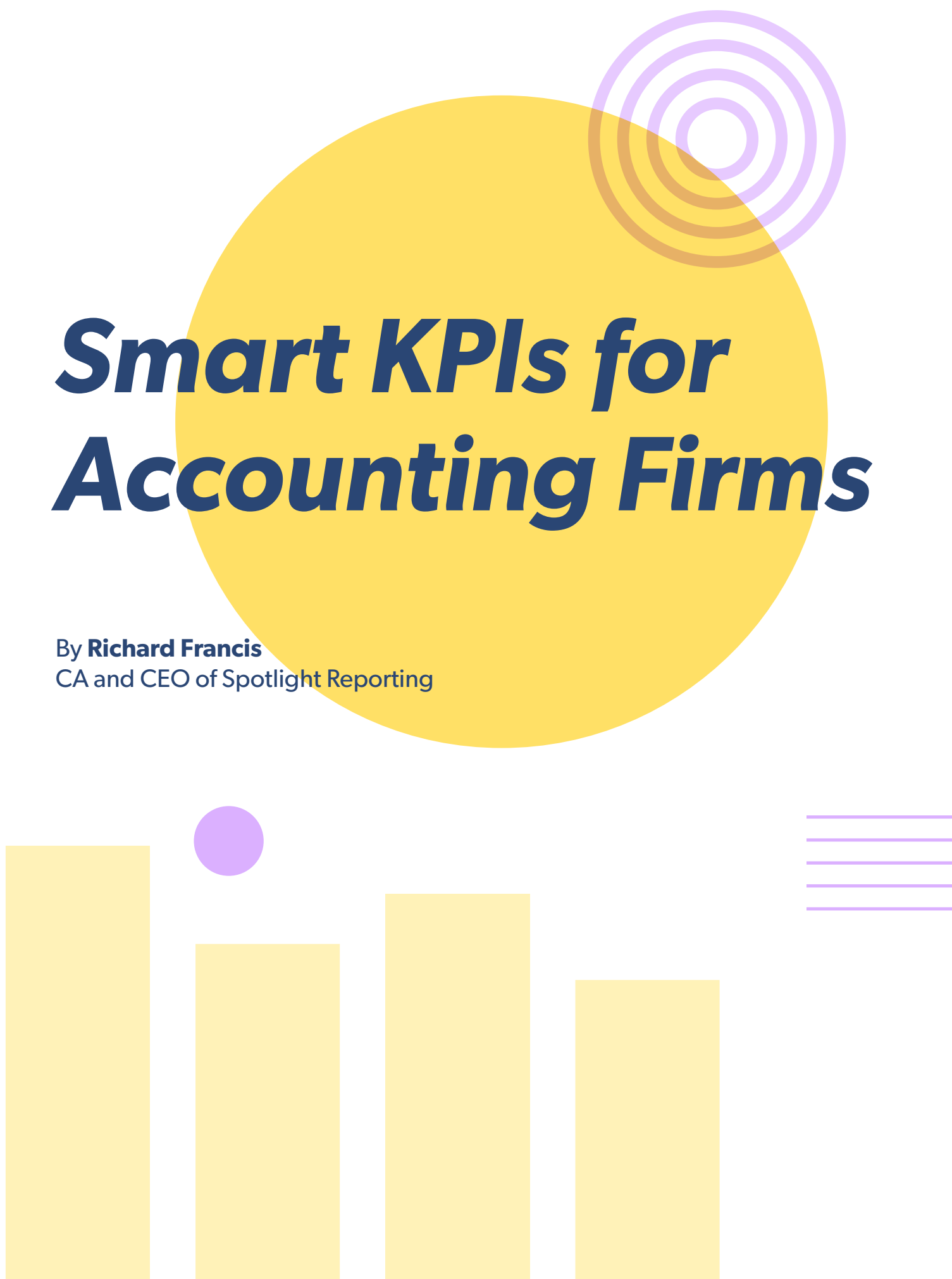




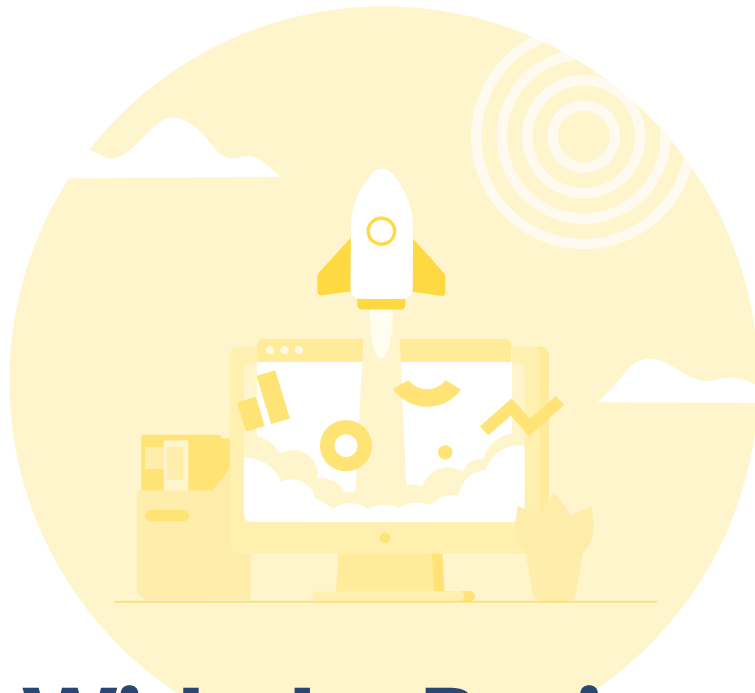
Smart KPIs for Accounting Firms

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Start With the Basics

Every credible business needs to measure what matters. If you don't have meaningful Key Performance Indicators (KPIs) and a set monitoring and reaction regime, your measure of success becomes a stab in the dark.

Increasingly we're seeing 'smart growth KPIs' becoming more prevalent. Some are borrowed from other industries (like software-as-a-service), but essential KPIs for the modern advisory firm take a more multi-faceted view.

In general, KPIs are grouped like this:

-  **Engagement KPIs**—client satisfaction and community engagement.
-  **Revenue KPIs**—tracking the fee level and balance of your clients and services.
-  **Team KPIs**—resourcing, delivery, and satisfaction.

But before we dive into these further, let's ensure your own core reporting is set up properly.

Many accounting firms, paradoxically, don't do their own accounting very effectively! They use a broad 'bucket' to capture revenue earned, making it more difficult to identify useful service line splits and trends that can help decision-making.



If you don't have meaningful Key Performance Indicators (KPIs) and a set monitoring and reaction regime, your measure of success becomes a stab in the dark.

Once your own numbers are set up correctly and flowing into useful buckets, you can start to roll the essential KPIs into the mix.

1. Define Advisory Fees and categorise these separately from core Compliance Fees.
2. Where possible, track the categories of Advisory Fees (i.e. forecasts, Spotlight Reports, strategic, mentoring etc).
3. Capture Monthly Recurring Revenue for each category (i.e. what recurring, predictable services are baked in and delivered on a predictable cadence?).
4. Capture Non-Recurring Revenue for each category—from projects and irregular service work (i.e. raising finance, restructuring, business sale etc).
5. Set Budget (expectation) numbers for each category.
6. Set Targets (aspirations) as well.

Once your own numbers are set up correctly and flowing into useful buckets, you can start to roll the essential KPIs into the mix.

Establish a baseline and set a time frame that makes sense to you. After all, we're looking for improvement and forward progress, right?

Engagement KPIs

Net Promoter Score (NPS)

I think it's dangerous not to measure client satisfaction. Accountants who don't proactively encourage feedback are missing out on useful data and suggestions for improvement—as well as revenue opportunities.

We survey customer satisfaction daily, using the feedback to course-correct with clients, develop new offerings, and spark conversations that often

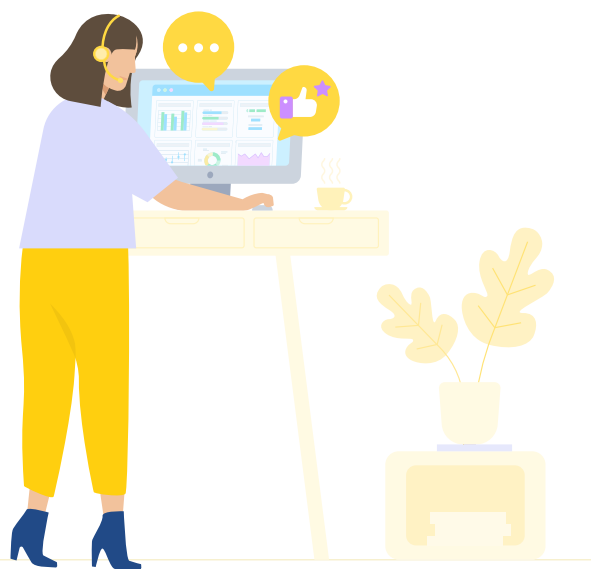
lead to additional work. Today, apps like Net Promoter Score (NPS) make this process easy and immediate.

Spotlight Reporting uses NPS on a rolling basis, allowing us to see satisfaction trends, and to receive immediate, actionable feedback. Following up on NPS is key though. All our NPS respondents get a call or email, and we absorb and utilise this feedback across our business. We even have an internal Slack channel making the NPS feedback visible to all our staff.



Tip:

You can use a specific NPS tool (we use AskNicely) and customer support tools (like Zendesk) to incorporate point-of-interaction satisfaction metrics too.



Community Engagement

This is another facet of your practice that's important to monitor and react to. A battery of metrics can be tracked here:

-  eNews open and click-through rates (find out industry averages and compare your results).
-  Campaign, webinar, and event registrations and attendance, ratings, conversion, and ultimate ROI (i.e. did the attendees become clients, did attendee ARPC grow etc).
-  Website, blog, and campaign landing page engagement.

Ensure this discretionary activity and investment (to engage prospects and existing clients) converts into more satisfied customers, new revenue upsold, and longer retention/lower churn. If not, your methods of engagement are probably misfiring.

Churn

Churn (client revenue exiting your business) can be a measure of dissatisfaction and/or lack of engagement, and is best measured as the value of fees lost. A single departure of \$50,000 p.a. will resonate more painfully than two small churns of, say, \$5,000 each—which is why I believe a certain level of churn is not only acceptable, but desirable.

Churn for most practices is very low, largely through client apathy and a begrudging acceptance of the work as a necessary evil.

If you look to exit approximately 5% of your fee base each year, while growing the 'top end' desirable fees from existing clients and great new additions, you'll get the mix about right.



Every practice has uneconomic clients: bad payers, time-wasters, and the ones who keep us up at night. These types of clients should be fired.

Revenue KPIs

Average Revenue Per Customer (ARPC)

Many accountants, counter-intuitively, associate higher fees with grumpy clients. I've found the opposite to be true, but on the critical proviso that you deliver value consistently and communicate transparently.

ARPC is a great indicator of:

- relationship depth and nuance
- your ability to offer, sell, and deploy a range of services
- the ability to grow your fees faster than the absolute growth in client numbers.

Once you understand your baseline ARPC, you can use tools like the [Service Opportunity Matrix](#) in our Partner Success Centre to start planning for an increase. Each year, think about the percentage increase in ARPC you aspire to, cross-referenced with the services or packages you'll offer to achieve this.

Value-Add Service Mix

This 80:20 percentage measure of Value Add (or Advisory) Fees vs Compliance Fees was a mission-critical indicator for me, as I strived to stay true to my business model and dream of being a trusted advisor.

It was also a sure-fire measure of:

- accepting the right clients—not just any old referrals
- proactiveness (i.e. taking the time and effort to upsell)
- satisfaction.

Clients, staff, and owners all seemed to occupy a happier place when we had our eye on adding value.



Team KPIs

Human Contact

I believe that if we expect our staff to have frequent human interactions with clients, our employees will not only be happier and more engaged, but our clients will want additional services from us too.

Even though human contact is a staff KPI (e.g. ten client meetings per month), it should positively ripple across the other KPIs noted here. Avril Hillind from Laurenson CA is passionate about her team engaging their clients on a human level:



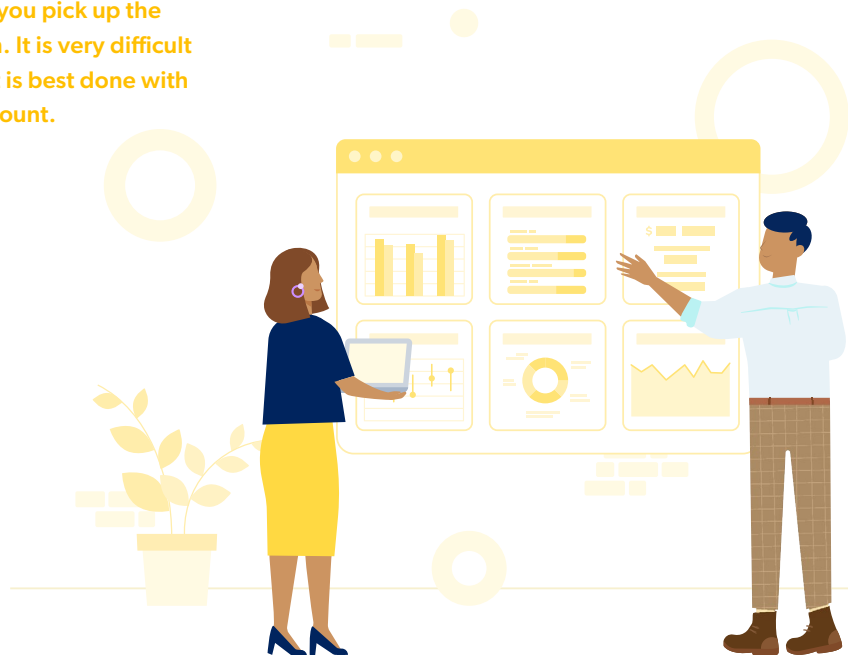
You can't beat a personal conversation... your client is going to feel most supported and likely to work with you to the best end result if you pick up the phone and have a chat with them. It is very difficult to convey empathy in an email, it is best done with the human voice. Relationships count.

— Avril Hillind, Laurenson CA

Revenue per Employee

This is a solid KPI that, for me, has more resonance than utilisation. I was less concerned with ensuring that every hour was billable at a set rate. But I did want a feel for how client-facing the team had been. And whether the higher mix of value-add work had (as it should) created revenue leverage without blowing out head-count.

There are many KPIs to choose from and I've noticed some leading firms are looking at SaaS metrics (like Monthly Recurring Revenue and Lifetime Value) to get a different perspective on business performance. These are powerful examples of crossover metrics that are useful for you and service-based clients.



Report and React

Once you've selected your KPIs, regularly report and analyse them for insight and accountability. Program in your KPI monitoring and reaction regime and make it a non-negotiable business process.

Every firm should have its own robust KPI reporting in place before it deploys a similar approach to clients. And with software like Spotlight Reporting doing the heavy lifting for you, it's easier than ever to 'walk the walk'.

Interested in Spotlight Reporting?

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Get the Ball Rolling



Take the pain away

Use best-of-breed systems, including Spotlight Reporting.



Set and monitor your own firm's KPIs

Covering Engagement, Revenue and Team.



Think beyond the norm

Roll in new and non-financial KPIs that resonate.



Start with the basics

Follow the six steps listed on page three.



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