



Smart KPIs for Accounting Firms

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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 (or otherwise) 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 get our own core reporting set up properly.

START WITH THE BASICS

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.



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

My advice would be:

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, irregular service work (i.e. raising finance, restructuring, business sale etc)
5. Set Budget (expectation) numbers for each category
6. Set Targets (aspirations) too

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 engage on satisfaction. Accountants who don't proactively encourage feedback are missing out on useful analysis and suggestions for improvement - as well as revenue opportunities.

We survey customer satisfaction annually, using the feedback to course-correct with clients, develop new offerings and to spark conversations that often lead to additional work. The Net Promoter Score (NPS) apps of today 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 customers.

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





Every practice has uneconomic clients: bad payers, time-wasters and those who give us sleepless nights. And these types of clients should be fired.



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:

- Electronic Newsletter open and click-through rates (find out industry averages and compare your results)
- Campaign, webinar and event registrations attendance, ratings 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.



REVENUE KPIS

Average Revenue Per Customer (ARPC)

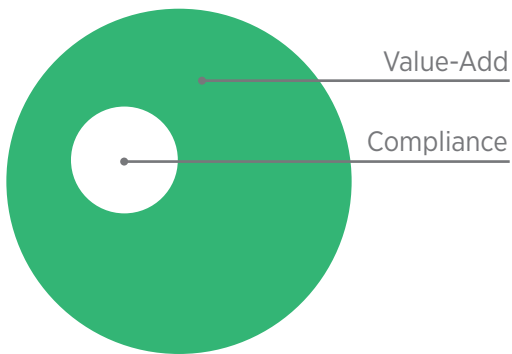
Many accountants, counter-intuitively, associate higher fees with grumpy clients. I've found the opposite to be true but on the critical proviso that you deliver value consistently and communicate transparently.

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 to the services or packages you'll offer to achieve this.





Value-Add Service Mix

This 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.





We need to get back to face-time... and be human. Technology is a great enabler, but the human connections are what really drive our business.

Tim Munroe

CEO CHANGE ACCOUNTANTS & ADVISORS

TEAM KPIS

Human Contact

I believe if we expect our staff to have frequent face-to-face (or online) 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. Tim Munro of Change Accountants is passionate about his team having ‘face time’ and uses KPIS to track this:

“We need to get back to face-time...and be human. Technology is a great enabler, but the human connections are what really drive our business.” Tim Munro

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 Life-time 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'.

NEXT STEPS

Start with the basics

Follow the six steps listed on page three.

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.

Take the pain away

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