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MPs At Fastest Growing Firms – Niche And Full Service Discuss Successes

John Malone knows a thing or two about growing a CPA firm. Houston-based **Malone & Bailey** (FY07 net revenue of \$9.6 million) was named one of IPA's Top Ten Fastest Growing Firms in 2007 for the third consecutive year. As MP of M&B, he watched his firm grow by 56% in 2006. And if that isn't impressive enough, "We grew 94% the prior year."

Malone credits his firm's growth success to its niche: 85% of its revenues come from SEC audits of small public companies. "Most of them are under \$75 million in market capitalization, and \$25 million in total assets or total sales," Malone tells IPA. M&B ranked No. 1 on this year's IPA All-Stars list in the "Highest Percentage of Revenue from A&A" category.

"We have shaped our firm to best serve the niche," he says. M&B has implemented several innovations focusing on staff, clients and quality control – "a number of areas that make it more efficient and make it more accurate, make it less trouble on our people so that they have more fun doing it, and the clients see better [and] faster service," he tells IPA.



John Malone
Malone & Bailey

Among the staff innovations, Malone boasts, is the use of virtual auditing. "Our staff stays in our office 95% of the time and we are 100% paperless. Supervision is more efficient, and our staff is happier without the stress of travel and unfamiliar client locations and personnel." He adds, "We spread our audit work year-round, and can thus accommodate work/life balance more effectively, so we can attract and retain more and better talent." For the clients, the audit staff spends nearly 100% of its time doing SEC-level audits. As a result, the staff faces SEC "hot-button" accounting issues repeatedly and has thus become very proficient: Fewer errors occur, and each auditing or reporting hurdle takes less time to overcome.

Another innovation is that M&B doesn't attempt to do public company auditing using private company standards, because GAAS and GAAP standards, although similar, are not uniformly interpreted or enforced. "This enhances our quality control with only a single set of auditing standards," Malone says. "Staff cannot be proficient in both." While the firm focuses mainly on public companies, about 9% of its revenue comes from private company audits and compilations. Again, M&B uses public company standards, which Malone believes are more strictly interpreted.

One challenge M&B faced during its rapid growth was hiring outside experience and getting those new hires to "play on the same team," Malone says. "For rapid growth, we cannot develop everyone internally. We have to hire in all experience levels from the outside. Getting them to do things our way is the biggest single challenge."

Malone predicts that more and more accounting firms will become niche practices. He says M&B's fast growth has exposed more people to the firm's services, which leads to referrals. "Look at an attorney model, where an attorney has a very narrow niche practice, and gets his business from other attorneys who don't do that niche. They cross-refer to the other." He says, "The way to grow your practice is to get well known."

Coral Gables, Fla.-based **Berenfeld, Spritzer, Shechter & Sheer** (FY06 net revenue of \$16.9 million) and **PMB Helin Donovan** (FY06 net revenue of \$4.1 million) of Austin, Texas, were both named to IPA's 2007 Top Ten Fastest Growing list in 2007, with 52% and 41% growth, respectively. Unlike M&B, BSS&S and PMB focused their growth on becoming full-service firms.

Walter "Butch" Gelnovatch joined BSS&S as MP three years ago, after serving as COO for Rachlin Cohen & Holtz in southern Florida and, before that, serving as a management consultant for PwC. At the time, BSS&S "wanted to grow but they weren't sure how to do it, what they needed to do to be a regional player," Gelnovatch tells IPA. Before he accepted the position with the firm, he told the partners that growth wouldn't come easily, and that it required a great deal of planning, as well as the willingness to execute the plan and make changes as needed along the way.

First, BSS&S needed to define success: "Our goal is to be the most profitable, highest quality provider in Florida," while becoming an employer of choice that would attract and retain the best people. He notes that during its strategic planning session three years ago, the firm set three- to five-year goals, business objectives, and strategy and action items on how to accomplish those business objectives. "We had a list of things we needed to do to be a full-service accounting firm," Gelnovatch says.



Walter Gelnovatch
Berenfeld, Spritzer,
Shechter & Sheer

BSS&S decided to offer something on its consulting side that would make the firm stand out from its competitors: computer forensics. Its Forensic Technology Group helps law firms and other organizations conduct technological investigations on issues ranging from human resources violations to embezzlement and fraud.

To achieve overall growth, the firm recruited the best specialists it could find to improve the firm's quality of expertise. "The benefit of growing is that it attracts more of those types of people," Gelnovatch tells IPA. "It's much easier for us to attract them now. It gets easier each year." These specialists impress clients with their knowledge, which leads to bigger and better clients.

We put together [an overall] plan the first year (2004), and we executed it very well," Gelnovatch says, noting that the firm grew over 30% in 2005. "It takes time to get these plans to really kick in, so last year was the first year we got all the cylinders firing. It looks like we're going to have the same kind of year this year; we're tracking the same kind of numbers." Gelnovatch believes that the firm will reach "critical mass" this year, and that next year the growth will taper off to 15% to 20%. One challenge BSS&S faced during its growth spurt was office space. "We've been building out space for the last three years, taking more space and buildings," Gelnovatch says.

BSS&S had to transition some of its existing clients to other firms. These clients didn't have the need for the more sophisticated services the firm now offers, so it didn't make sense for them to pay the increased fees. Looking back, Gelnovatch said he would have liked to have had an established program for transitioning clients early on in the process. The firm now has such a program in place.

PMB Helin Donovan is a full-service firm that focuses on traditional services. "We have not moved our firm into non-traditional services, and we do very little bookkeeping," says founding partner **Tom Wilkinson**. "We have some consulting niches, but that is a small part of our business."

Part of the firm's growth strategy has involved marketing itself. The firm has also hired with the intention of growth, says **Tom Donovan**, MP and founding partner. "If you hire the people, you'll get the business." As a result, clients have benefited from the firm's increased capacity and staff experience level across the board, Wilkinson says. Because of its growth, PMB has picked up clients that are very big for a non-Big Four firm. Wilkinson notes that the firm is now earning the kind of revenue with five clients that it used to earn with 25.

The firm grew substantially over the first four or five years the strategy was in place. “We were doubling in size for probably the first three or four years, and we’ve kind of floated down to controlled growth,” Wilkinson explains. PMB’s growth rate looks to be about 25% to 30%, not counting the merger. “2008 we’re predicting that we’re going to try to control the growth more, but it will probably be 20% to 25%,” Donovan says.

One challenge the firm faced during its growth spurt was lack of proper infrastructure. “If two years ago we could have foreseen the growth, we probably could have gotten some infrastructure set up at that time, instead of taking what was a really busy year and try to do the infrastructure at the same time,” Donovan says, pointing out that the firm also had to hire additional staff for human resources, information technology and administration. Wilkinson agrees. “We had to invest in a lot of stuff.” ■

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