AICPA® PCPS
Private Companies Practice Section

2012 PCPS/TSCPA National MAP Survey

Commentary

Table of Contents

Acknowledgements

Many organizations and individuals provided their expertise to make this year's PCPS/TSCPA National MAP Survey possible. The commitment of the PCPS Executive Committee and the Texas Society of CPAs once again provided us the support to build on past success and expand the survey's geographic reach to its largest ever. For the first time in the survey's history, we're proud to announce the participation of all 50 state CPA societies. Additionally, we're grateful for our partnership with the Association for Accounting Administration. Aon Insurance Services, the broker and administrator for the AICPA Member Insurance Programs, continues to be our valued, premier sponsor.

The Private Companies Practice Section (PCPS) is a voluntary add-on firm membership section of the AICPA that brings together CPAs managing their own practice.

PCPS partners with more than 6,500 CPA firms of all sizes nationwide and provides targeted and customizable practice management tools in the areas of technical resources, business development, human resources, benchmarking and succession planning.

This section is overseen by the PCPS Executive Committee, made up of CPA volunteer practitioners, which steers programs to help improve the quality of services and operating success of PCPS member firms. The PCPS Executive Committee promotes the importance of firm practice management by endorsing this biennial survey.

Note that certain reclassifications were made to the 2010 presentation in order to conform to the 2012 reporting basis. Every effort has been made to preserve comparability. However, the reporting of some data has been affected, and in some cases does not allow for a meaningful survey-over-survey comparison. An example is the new change from full- and part-time staffing information in previous surveys to Full-Time Equivalents (FTEs) in 2012. Also new in 2012 was the addition of a staffing category for Senior Managers. Finally, participants were asked about several emerging technologies not previously queried in other surveys.

Poised for the Future

What the Results of the 2012 PCPS/TSCPA National MAP Survey Say About the State of CPA Firms

CPA firms have successfully navigated through several years of economic uncertainty, and the majority are experiencing modest to robust growth. That's one of the conclusions that can be drawn from the results of the 2012 PCPS/TSCPA National MAP Survey, sponsored by the AICPA Private Companies Practice Section in association with the Texas Society of CPAs. It gathered responses from almost 2,400 firms from May through August 2012 and reflected their financial results for 2011. The profession's largest firm benchmarking survey offers numerous clues that indicate the outlook for CPA firms is improving and that they are poised for a future in which renewed growth and planning for the transition to new leaders are priorities. "The results are better than what we're seeing in many other areas of the economy," said Jim Metzler, AICPA Vice President, Small Firm Interests. "But they do indicate that realistic strategic planning is vital to maintaining a healthy practice going forward."

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— Jim Metzler, AICPA Vice President, Small Firm Interests

Gaining a Perspective on Growth and Income

In terms of firm growth, an average of 66% of all firms experienced at least some growth in client fees over the previous year, up from 55% who did so in 2010. The largest group — 42% — enjoyed increases between 1% and 9%. When broken down by firm size, the numbers ranged from 60% of the smallest firms that saw an increase to 77% of the largest. The smallest firms, with less than $200,000 in revenues, were more than twice as likely to see increases of 30% or more in fees than were other firms. As noted elsewhere, the small firm numbers may include data for some fairly new firms in 2010 expected to grow at relatively higher rates during the last two years.

Slightly fewer firms in 2012 experienced a year-over-year decrease in fees, and far fewer saw no change than in the last survey. Altogether, 45% saw a decline or no change in fees in 2010 compared with 34% in 2012. The smallest firms were the most likely to see a decrease in fees in 2012. Thirty-five percent encountered a drop, compared to roughly a quarter of firms in the middle. Only 16% of the largest firms saw their fees decline, down from 36% in 2010. However, as a general rule, smaller firms seem to have experienced more stability from survey to survey. In 2012, 60% of the smallest firms had higher growth and 35% saw a decline. That compares to 50% with increases in 2010 and 27% with declines. Among the largest firms, 77% enjoyed increases in 2012 and 16% had declines. That was significantly different from the 55% with increases in 2010 and the 36% that had declines. Growth is improving for firms at both ends of the spectrum, but the smallest firms as a group are less volatile.

To get a better assessment of this year's results, some perspective is helpful, including a look at recent surveys. Although 2008 was the year of the economic meltdown, the 2008 PCPS/TSCPA National MAP Survey results were gathered before the meltdown. As a result, they reflect a time when demand for CPA firm services remained steady. The next survey, in 2010, found CPA firms facing some stagnation but successfully using their business expertise to limit the damage caused by the recession. Revenue and growth were down for many firms, but owners offset those challenges by taking less money out of the business and, in some cases, limiting the number of owners. In 2012, practitioners continued to use their business savvy to steer their firms forward and away from the depths of the recession.

In some cases, discrepancies in the numbers disclosed the different kinds of challenges facing different firms. For example, net client fees per partner were down 13% from 2010 but still remained slightly higher than in 2008. Looking

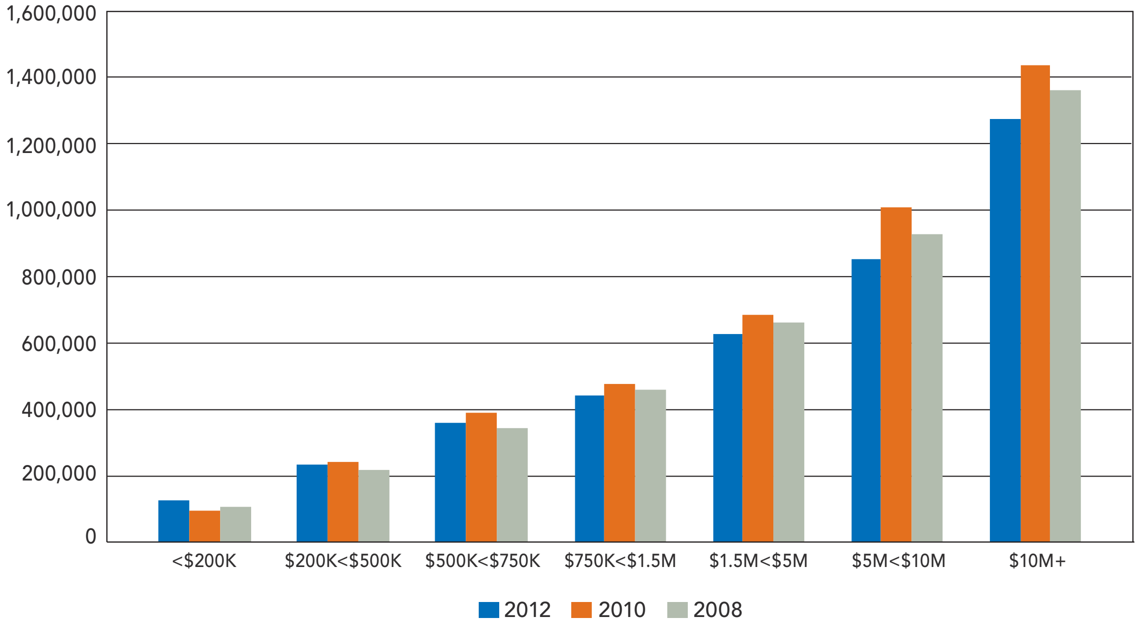
Increases in Net Fees

	1%-9%	10%-29%	30%+
2012	42%	19%	5%
2010	35%	16%	4%
2008	37%	35%	8%

at the firm size breakdown, it's clear that there are wide swings in the data, with fees per partner up significantly for the smallest firms, holding steady for most others, and down for firms with more than $5 million in revenues. It may be possible to attribute the spike among the smallest firms to an increase in practitioners opening their own shops in the last several years who are just now beginning to realize greater earning potential. This phenomenon might have also contributed to their strong showing in the growth category.

What about the drop in fees per partner among large firms? It could be assumed that it's an indication that firms are getting the message about the importance of succession planning. "The baby boom succession monster is now awake," says Mark Koziel, AICPA Vice President, Firm Services and Global Alliances. He believes that per partner amounts have fallen because firms are adding new partners to take over from baby boomers who will be retiring soon. This combination of incoming and outgoing partners still in the firm will dilute the numbers at least temporarily on a purely mathematical basis. At the same time, novice partners won't immediately generate as much business as more experienced owners. The fact that the percentage declines increase as firm size grows supports this fact, as larger firms continue taking on more new partners. (In fact, firms with more than $5 million in fees added an average of one to two partners since 2010.) It can be expected these numbers will improve as partner retirements thin the ranks and as younger partners hit their professional stride.

Fees Per Partner

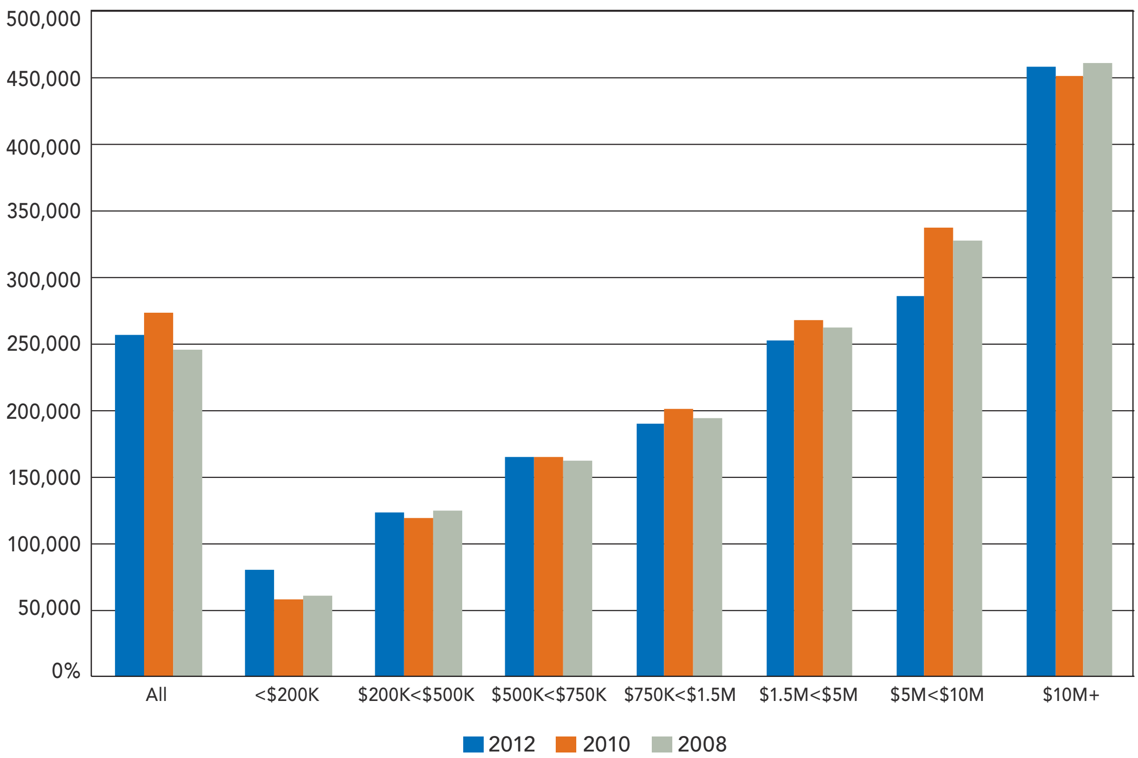


Understanding Spending Choices

The largest expense for any firm — professional salaries (excluding owners) — represented an average of 25.5% of net fees, down slightly from 28.5% in 2010. The change in dollars was much more dramatic, however, and it was driven by a drop in spending on professional salaries by the largest firms. They spent 29% of their income on professional salaries, down from 33% in 2010. Elsewhere, changes in spending ranged from:

- An 8% increase in salary costs among the smallest firms, although the amount they spent changed little from the 2010 survey as a percentage of total expenses
- A 7% drop for those with $5 million to $10 million in revenues, where salaries now account for 29% of expenses, down from 31% in 2010

Net Remaining Per Owner



Changes in Compensation

In the last couple of years, it's clear that owners made some changes in their approach to compensation at all levels. To understand what they were, it's useful to look first at net remaining per owner. It is not net income per owner – it is revenue minus expenses, before partner-related compensation items. It declined this year to an average of $256,780, down 6% from $273,140 in 2010. However, it remained above the 2008 average of $245,103. Average partner compensation, on the other hand, jumped 10% for the profession this year, with healthy increases among firms of all sizes. The rate of change varied from a high of an 18% hike for partners at the smallest firms to a 7% jump for partners in firms with $5 million to $10 million in revenues. This raise for owners came after cutbacks in 2010, when average partner compensation was down 5% from the 2008 survey. Once again, dipping into the 2008 survey numbers offers some perspective. In 2008, the profession-wide average partner compensation was $188,572, compared to $188,500 in 2012.

It seems that during recent years, partners have left some of their profits in the firm to ensure that it would remain stable during uncertain economic times. They appear to be taking more out in 2012 in order to cover the cutbacks to their own income they made in the past. In 2012, partners have moved their own pay back up to pre-recession levels.

Staff salaries generally were slightly lower in 2012 after some significant increases in 2010. Director salaries in 2012 averaged $107,193, essentially the same as in 2010. Senior associates earned $56,337, 3% below their 2010 average salary but up 2% from their salary in 2008. Associates earned $45,541, also off 3% from 2010 but up nearly 8% more than their average salary of $42,213 in 2008. New professionals took in $39,487, a 5% drop from 2010 but a 27% increase over 2008. Firms appear to have raised non-partner salaries in 2010 to aid retention but have allowed them to level off in 2012 as they equalize all salaries to pre-recession levels.

Related PCPS Resource:

The PCPS Human Capital Center's section on Reward & Compensation & Incentives offers a variety of tools that CPAs can use to address compensation issues and determine the most competitive levels for their firms.

Average Partner Compensation

	ALL	<$200K	$200K<$500K	$500K<$750K	$750K<$1.5M	$1.5M<$5M	$5M<10M	$10M+
2012	188,500	73,844	132,534	184,241	231,201	291,842	333,596	435,820
2010	171,669	62,663	120,437	163,008	202,696	255,569	310,542	387,796
2008	188,572	70,124	139,989	185,984	224,946	295,436	373,556	471,215

Working With Clients

Average billable hours for full-time-equivalent professionals (excluding new professionals) remained flat again after holding steady between 2008 and 2010. The overall partner billing rate generally held firm at an average of $183, up 2% from 2010. That number doesn't tell the full story, since there is a wide disparity in rates based on firm size. The partner rate averaged $126 at firms with under $200,000 in revenues, jumped to $160 for firms with more than $200,000 to $499,000, then moved up by generally smaller percentages until reaching $313 at the largest firms.

The level of change since the 2010 survey once again is dictated by firm size. Partners at the smallest firms saw an 8% increase while those at the largest firms lost 2%. Changes in rates for other staff positions were mixed, with the largest decline of 7% among new professionals down to $78.

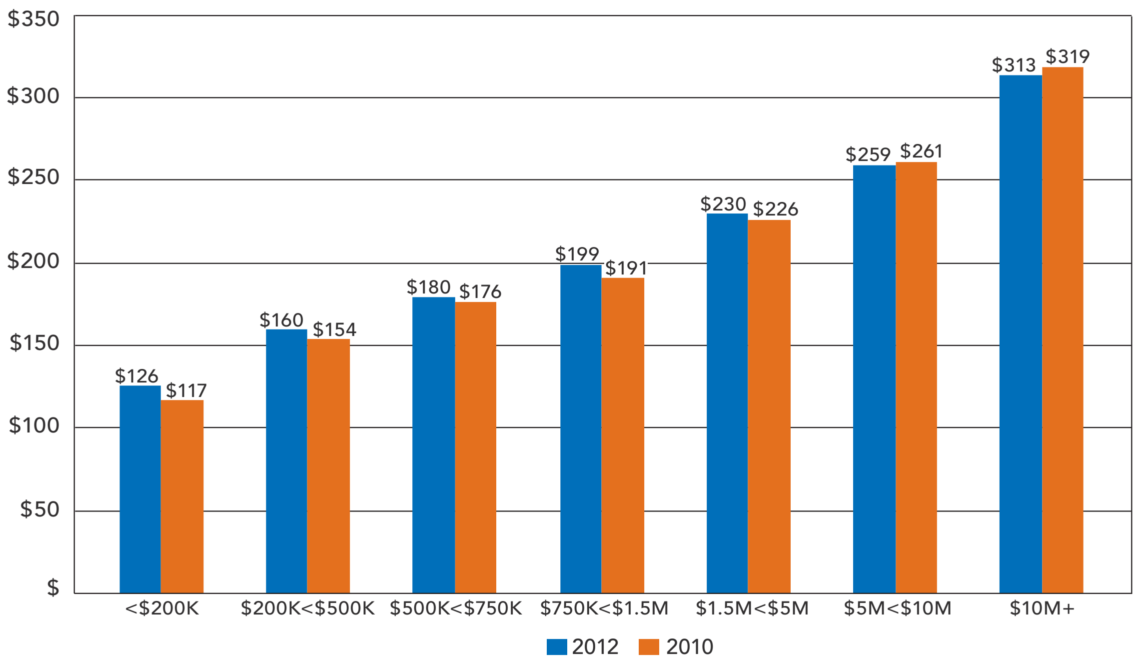
It should be noted that billing rate increases should be viewed in the context of fees and realization. Without a comparable hike in fees, a rise in billing rates typically simply means higher write-downs. With the exception of the smallest firms, there was no correlation between an increase in billing rates and fees.

Most billing methods were little changed from 2010, although 75% reported using fixed fees, up from 63% in the last survey, and 56% used value billing, up from 41% last time. Value pricing has been embraced slightly more by firmsin the middle (revenues between $500,000 and $5 million) than by firms at either end of the revenue spectrum.

Related PCPS Resource:

The PCPS Practice Growth & Client Service Center contains a wealth of tools organized around the goals of client acquisition, client retention and client development.

Average Partner Billing Rates



Checking Utilization and Realization

Utilization reveals the chargeable percentage of firm members' compensated hours. Utilization rates averaged 68% for all firms, essentially unchanged from 2010 and 2008. Broken down by position in the firm, it was 59% for partners, 64% for directors, 70% for senior managers, 70% for managers and 73% for senior associates — all within a couple of percentage points of the 2010 results. Utilization dropped most significantly at the smallest firms. Realization held steady at 86%, and was fairly consistent across all firm sizes.

Utilization Rates

	2012	2010
Partners/Owners	59%	61%
Directors	64%	62%
Senior Managers	70%	n/a
Managers	70%	68%
Senior Associates	73%	71%
Associates	72%	71%
New Professionals	69%	69%

How Were Human Capital Concerns Addressed?

The survey found that the most prevalent benefits offered to employees were CPE, professional dues and licenses, health insurance and a retirement plan. These were virtually unchanged since the last survey. Thirty-nine percent of the smallest firms did not pay for any of the common employee benefits covered in the survey, down from 46% in the last survey. More encouraging was the fact that roughly 50% of the smallest firms paid for CPE and professional licenses and dues, each one up 8 to 10 percentage points from the last survey. Virtually all firms with more than $500,000 in revenues pay for all the most common benefits identified in the survey.

Although firms clearly understand the importance of education, it does not represent a significant portion of their budgets, at 0.7% of outlays. That's half of the annual promotion and marketing budget and less than a third of technology expenditures.

An average total of 30% of firms have experienced turnover, basically unchanged since 2010. While voluntary turnover has edged a little higher, involuntary turnover — in which team members were let go — added up to well under half what it was in 2010 when firms were responding to the recession, often by taking the opportunity to let go of less satisfactory staff. It is possible that the lower salaries for some staff levels are a result of firms moderating pay as they commit to keeping on more people. At the largest firms, voluntary turnover was roughly 3.6 times higher than involuntary turnover; at all other firms, the ratio was no higher than 2.7. In 2010, involuntary turnover was higher than voluntary at most of the largest firms ($1.5 million and above) and even with voluntary turnover or marginally lower at the smallest ones. This may indicate a move away from the largest firms as job opportunities open up elsewhere. In looking ahead to the next survey in 2014, there are already indications that voluntary turnover is again on the rise as the economy improves.

The percentages of firms that offer paid time off for sick days (38%) or vacation (40%) are little changed since 2010. Those were well off the highs in 2008, however, when 52% paid for sick days and 64% for vacation. Since paid time off is generally an inexpensive benefit, firms may want to reconsider taking advantage of it. In a potentially positive step, the percentage that pay for other time — most likely used for professional training and similar pursuits — rose sharply to 23% from 13%.

Related PCPS Resource:

In addition to compensation information, the PCPS Human Capital Center features section on employee retention and work/life; generation/diversity integration; learning culture; organizational structure and governance; orientation/assimilation; owner development; performance management; strategy and planning; team development; and team recruitment.

Paid Time Off

	2012	2010	2008
Sick days	38%	34%	52%
Vacation days	40%	39%	64%
Other (e.g., professional activities)	23%	13%	15%
Aggregate PTO	29%	21%	18%

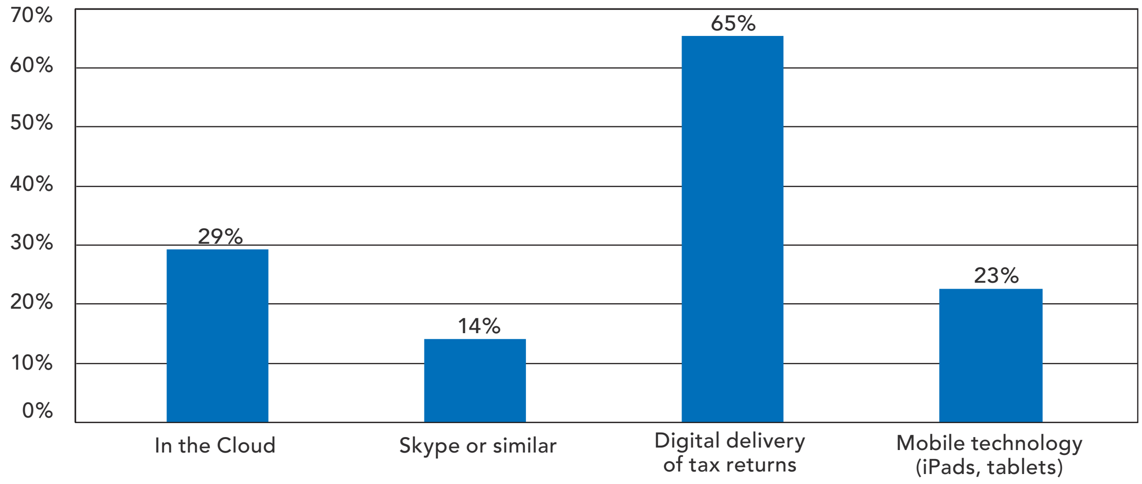
What Were Firms' Technology Priorities?

Websites are becoming a necessity for most practices. An average of 71% of firms had actively maintained websites, including 45% of the smallest firms, up from 38% for that segment in 2010. All firms with $5 million or more in revenues had them. Also widely embraced were multiple computer monitors, which were used by 76% of firms. In addition, 23% promote the use of mobile technology, such as iPads. A total of 65% deliver tax returns digitally, 61% have a paperless work environment and 59% offer remote access to their networks. Firms are also embracing new ways to exchange information with clients. Fully 42% have a client portal, up from 28% in 2010. (Client portals are online tools for exchanging documents.) A total of 29% use cloud-based software and 14% use Skype or a similar service. On the social media side, 25% use it, a big jump from 14% in 2010. The percentage of firms with a blog doubled since 2010, though at only 8% today it's clear CPA firms have not yet jumped full force into the blogosphere.

Firm Technology

	2012	2010
Multiple monitors	76%	71%
Website	71%	66%
Paperless	61%	52%
Remote access	59%	62%
Client portal	42%	28%
Social media	25%	14%
Blog	8%	4%

Online Technology



How Were Firms Handling Succession?

As noted elsewhere, the net client fees per partner results may indicate that firms are beginning to bring up new partners to lead their firms into the future. If they are embracing succession, however, they are not improving their efforts to implement formal programs. For example, a total of 7% of firms with under $500,000 in revenues had practice continuation agreements, not much changed from 2010, even though these agreements can ensure a firm's existence or smooth transition to new ownership in case of a sole owner's death or disability. As the number of retiring baby boom partners grows — and the transition to new leadership or ownership continues — firms will find themselves well-served to set aside ad hoc efforts and begin more formal planning for succession.

Related PCPS Resource:

Practitioners can turn to the 2012 PCPS Succession Survey, which offers valuable insights into how CPA firms are handling succession. It's one of the many tools available in the PCPS Succession Planning Resource Center.

Making Sense of the Numbers

The 2012 PCPS/TSCPA National MAP Survey offers practitioners an excellent opportunity to benchmark their own financial results and situation against those of other firms. The findings provide a reality check concerning the state of CPA firms today that practitioners can use in their strategic planning efforts. In addition, the Action Agenda in this commentary provides a step-by-step plan for putting the survey results to work in your firm.

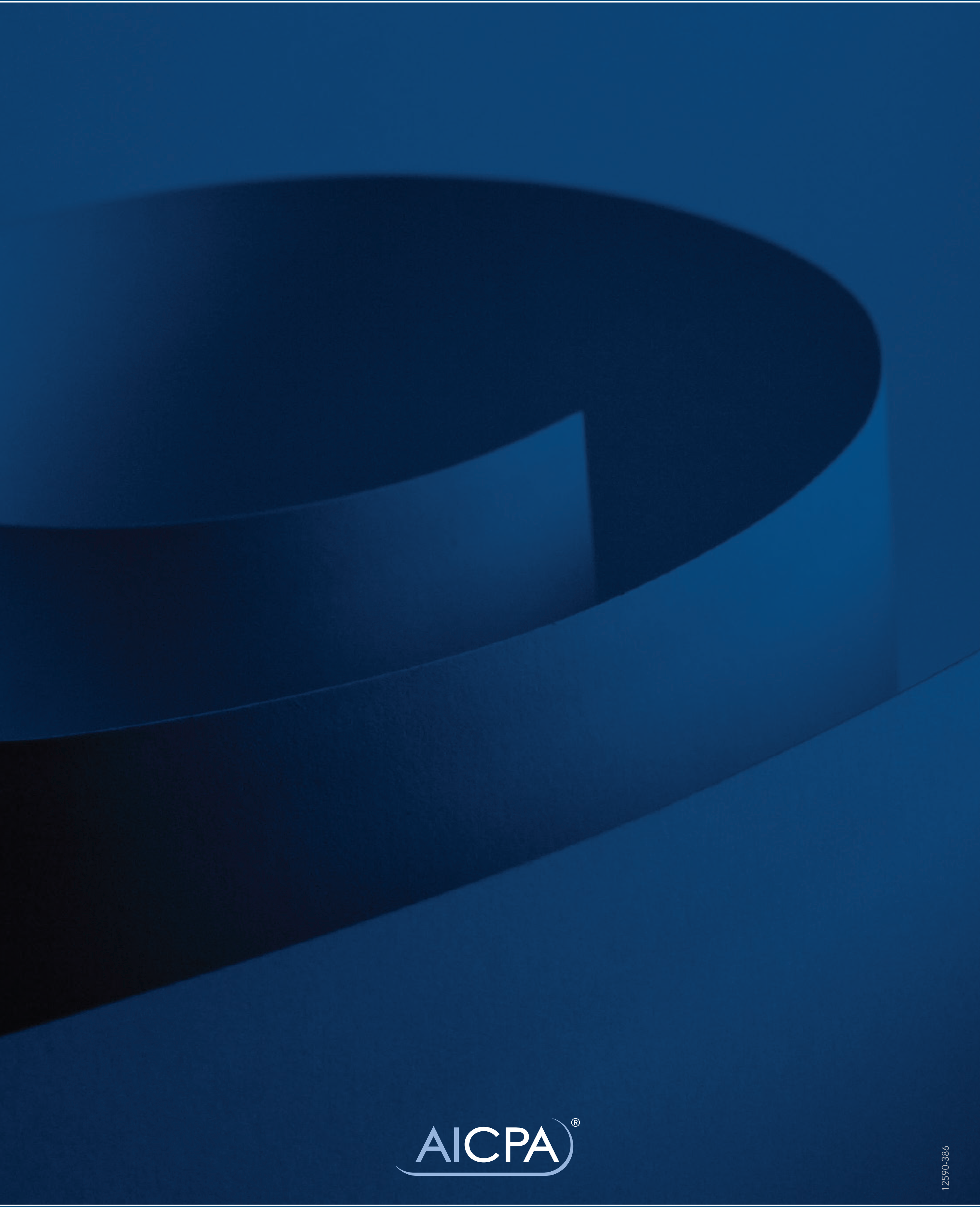
Related PCPS Resource:
Based on the AICPA's visionary CPA Horizons 2025 initiative for the profession, the PCPS CPA Horizons 2025 Toolkit includes resources that practitioners can use to chart their own firm's future course.

Action Agenda

How can you make the most of the information in the 2012 PCPS/TSCPA National MAP Survey? Follow the steps here to achieve your goals.

Action	Project Champion	Deadline Date	Date Completed
Review the results of the 2012 PCPS/TSCPA National MAP Survey. If you don't already have your copy, go to aicpa.org/PCPS/map2012 for more information.			
Determine which financial or practice management concerns are of greatest importance to your practice.			
Compare your own results with the survey findings. Consider overall results as well as relevant data for specific size segments and geographic regions.			
Based on discrepancies or trends you notice in the data, decide if changes are needed in your own practice. What can you do to reinforce successful policies in your firm or revise approaches that aren't working?			
Rank needed changes in order of importance.			
Appoint an internal firm champion to follow through in each area.			
Conduct regular update sessions to monitor how initiatives are proceeding.			
Participate in the next National MAP Survey in 2014. Information on future surveys will be available at aicpa.org/PCPS.			

It pays to be a member! PCPS provides member firms with up-to-date information, advocacy and solutions to challenges facing their firms and the profession. For many CPA firms, the price of membership is more than matched by the thousands of dollars in member benefits and discounts. If you have any questions about PCPS membership, please call 800.CPA.FIRM or email PCPS@aicpa.org.



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