



Client Relationship Management



Module
6

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6.1 Introduction

The relationship accountants have with their clients is fundamental to the value of the accountancy firm. Increased competition demands that accountants shore up their client relationships so that clients are less vulnerable to persuasion from competitors.

Each word in the term “client-relationship management” is important.

- “Client” implies an ongoing, professional relationship. This means that once an initial relationship is established, both the firm and the client intend to continue to deal with each other.
- “Relationship” implies that the association between client and firm is more than a simple transaction, or a one-time purchase of a service. It is often the case that the client shares private or confidential information with the firm, and hence a level of trust is established. Both the client and the firm come to know each other and gain an understanding of how the other works.
- “Management” implies that the relationship doesn’t just happen, it needs to be managed. This means that there is an active involvement, more than just the firm responding to client requests.

Establishing a deeper client relationship makes good commercial sense. It has been established over a number of surveys that it costs far less to retain a client than it does to acquire a new one. This should be of particular interest to accountants, who are often very concerned with matters relating to cost and cost management.

No matter how deep, or not, your relationship is with your client, it is important not to overlook the benefits of a proper engagement letter, where it is not already mandated by relevant standards, in which “who is doing what and when” is fully documented. A proper engagement letter will help you during the relationship and also, if necessary, when ending it.

6.2 Knowing Your Client

“Knowing your client” certainly means understanding their business affairs. It’s also about understanding what motivates them, what their fears are, and why they do what they do.

It’s valuable to understand what’s important to your clients—their values and their core characteristics. It also really helps if you understand the vision they have for their business. Keep in mind your clients have lives separate from their business: a business can be a person’s escape, their means of making a living, or their mode of expression, but is not necessarily who they are.

The service you provide will be well regarded, and valued. When you achieve this level of relationship, price becomes less of an issue. The client becomes less concerned about the lowest price because they are getting sound advice from their trusted adviser. (They will still want good value, though!)

Getting to know your client:

- Builds a closer relationship;
- Strengthens your position as their “trusted business adviser”;
- Means that price becomes less of an issue;
- Increases client loyalty, which means clients will be less interested in approaches from competitors;
- Increases client retention, and therefore profitability and value of the firm;
- Increases staff satisfaction, as they also build relationships with clients;

- Increases efficiencies: your firm and its clients know each other's systems and methods and how to work together; and
- Tends to be more professionally satisfying.

This module provides assistance to those who realize the benefits of deepening the relationship with their clients and are looking for ways to do it.

6.2.1 Client Questionnaire

The best way to get to know your client, and understand the client's vision and long-term plans, is simple. You must ask them and be genuinely interested in the answer. This works best when done in a structured way.

Two client questionnaires are provided, one with a business focus (see [Table 6.1](#)), the other with a family focus (see [Table 6.2](#)). You can use this format, or use the ideas to design your own questionnaire.

When you meet your client and ask the questions, make sure you give them time to answer fully. Take the time to listen. Clients often like to elaborate on their answers, as they are keen for you to understand them and their plans better. You may choose to use a formal approach (such as a questionnaire) or engage them in conversation, gathering usable information in a less formal manner.

Table 6.1 Sample client questionnaire: Business

| Question | Reply/Comment |
|---|---|
| Client: Directors: Owners: | |
| Age of directors/owners | |
| What is the main purpose of the business (describe products, services, and client profile) | |
| Experience in business | |
| Time in current business | |
| Expertise in current business | |
| What is your current business plan? | |
| What do you want to achieve in this business? | |
| Have you undertaken a competitor analysis and/or reviewed industry benchmarks? | |
| What are your goals and key objectives? | |
| Where do you see your business in two, five, and ten years? | Two years: Five years: Ten years: |
| Where is your business now in relation to where it needs to be? | |

| Question | Reply/Comment |
|--|---------------|
| What are the key steps you need to take to get there? | |
| What might stop you from getting there? | |
| What are the most important things you want from your accountant? | |
| What are your key frustrations? | |
| Identify key employees Note the length of their service What are their ambitions, goals, and objectives? | |
| How long do you want to stay involved in this business? | |
| When do you plan to retire? | |
| What else do you like to do apart from working in the business (hobbies, interests, etc.)? | |

Table 6.2 Sample client questionnaire: Family

| Question | Reply/Comment |
|---|---|
| Client: Family Members: | |
| Age of Family Members | |
| Overview of family members in family business interests and/or investments | |
| Level of interest of each family member in family business interests and/or investments | |
| What is family business or investment plan? | |
| What does the family want to achieve from their investments? What are the family goals and key objectives? | |
| Where do you see the family investments in two, five, and ten years? | Two years: Five years: Ten years: |
| When do family members plan to retire? | |
| What else do you like to do apart from working in the business (hobbies, interests, etc.)? | |

6.3 Reviewing Your Client Base

One of the key elements in client relationship management is continual focus on the client. Even though accounting firms deal with numbers, laws, and regulations, it is the relationship the client has with the firm that will bring them back to you, year after year. This is where real value is added to your firm.

The reality for most firms is that the relationship they have with their clients varies. Firms may provide the same professional services, such as an audit or tax return, to many clients, but the relationship differs from client to client. This is because it is people who run each business, and people are different wherever you go.

It is important to understand how your clients interact with your firm and just what the client relationship is based on. One effective way to do this is to classify your clients. This allows you to see which clients have a strong relationship with your firm, and which do not. It also allows you see where resources should be allocated and if there are any areas requiring special attention.

6.3.1 Client Classification

There are many ways to classify clients. Questions you could ask include:

- How much time does the client spend with our firm?
- What is our return on investment with this client?
- What contribution margin do they make?
- What hourly contribution margin do they make?
- Client contribution as % of total?
- How many of our services do they currently utilize?
- Do they pay our bills on time?
- Do they dispute or argue over fees?
- Do we make good recovery on their fees?
- Do they respect our advice?
- Can we add value to their business?
- Do we enjoy working with them?

Firms that go to the effort to rank their clients often do so on the basis of the fees the clients pay. This is one important indicator; however, remember to also use some “non-monetary” criteria, as you deal with clients on many levels.

Tables 6.3 shows an example of how client bases might be classified according to different criteria.

Table 6.3 Client base classification criteria

| A+ | A | B | C | D | “Up and Comer” |
|---------------------------------------|---------------------------------------|--|---------------------------------------|--|--|
| Spends \$20,000 or more per year | Spends \$10,000–\$20,000 per year | Spends \$5,000–\$10,000 per year | Spends \$2,000–\$5,000 per year | Spends \$2,000 or less per year | Enthusiastic client of firm |
| Utilizes five or more of our services | Utilizes four to five of our services | Utilizes three to four of our services | Utilizes two to three of our services | Utilizes only one to two of our services | Potential to utilize three or more of our services |
| Monthly payment arrangement | Monthly payment arrangement | Monthly payment arrangement | Monthly payment arrangement | No monthly payment arrangements | Will do monthly payment arrangement when ready |
| Respects our advice | Respects our advice | Respects our advice | Respects our advice | Minimal scope for advice, but does appreciate our services | Respects our advice |
| Values our services | Values our services | Values our services | Values our services | Values our services | Values our services |
| We enjoy dealing with them | We enjoy dealing with them | We enjoy dealing with them | We enjoy dealing with them | We enjoy dealing with them | We enjoy dealing with them |

Table 6.4 Client classification exercise

| | Action | Completed/Comment |
|----|--|-------------------|
| 1. | Determine the criteria on which you will classify your clients. | |
| 2. | If this includes financial information, ensure that this information is available. | |
| 3. | Determine the coding system you will use (for example, A+, A, B, C, etc.). | |
| 4. | Access a listing of all clients of the firm. (This works best in electronic format.) | |
| 5. | Allocate a classification code against each client. | |
| 6. | Sort client list according to code. | |
| 7. | Review list for anomalies. | |
| 8. | Make list available to all employees for review and comment. | |
| 9. | Determine appropriate strategies to maximize use and value of this information. | |

6.3.2 Benefits of Client Classification

A number of benefits may be gained from the process of client classification.

6.3.2a Demographics

Classification allows the firm to discern:

- Which clients are utilizing which services;
- The popularity of certain services;
- The resources and training required to support these services;
- The opportunities to up-sell and cross-sell additional services; and
- Those clients who utilize most services in the firm.

It is important to share this information with all the employees in the firm so that they know where clients sit in the firm rankings. This will help them deliver the appropriate level of client care and support. It will also keep them alert to the opportunity to up-sell and cross-sell additional services to those clients who utilize a lower number of services.

6.3.2b Pricing

Client classification may also allow the firm to consider special pricing arrangements. These may apply in different circumstances.

Preferential pricing may be considered for clients who utilize a large number of services. This may enhance the client relationship and show loyalty and appreciation to the client for their support of the firm, by providing lower prices in some areas.

Preferential pricing may also be considered for clients as an incentive or inducement to increase the number of services they utilize. For example, a firm could offer 10% off fees on the additional service in the first year of use.

In addition to preferential pricing, the firm could also consider different pricing structures that may apply to different service levels, or to different types of work, or to services provided. Value and other pricing models are discussed in [Module 3](#).

6.3.2c Valuation

It may be possible to attribute a value to the clients within each category of classification. While this may not be an exact or precise measure, it may at least give an indicative value of the client base. It will also allow the firm to assess the return on investment that is being realized from the client base.

One method of valuation is called the Lifetime Value of the Client. This involves estimating how much the client will spend with your firm during the lifetime of the mutual relationship. Also make an estimate of how many other clients they are likely to refer to your firm, and what the value of those clients will be to the firm. This will then provide the firm with a guide as to the level of investment they should make with various clients.

As you can see, there are many ways the information gained from the classification of clients can be used. The next step is to determine the appropriate strategies the firm should use to make the most of the opportunities this information presents.

6.4 Measuring and Exceeding Client Expectations

The starting point for measuring and exceeding client expectations is to understand what those expectations are in the first place.

6.4.1 What do Clients Want?

The key to growing a successful firm has much to do with keeping a firm relevant to the changing needs of the clientele. Hence, understanding the challenges your clients are facing is important if you want to be seen as a business partner and provide tailored services which are valued by the client. Recent [IFAC SMP Global Surveys](#) have identified that when asked about the challenges facing their SME clients, 75% or more of respondents rated seven of the eight challenges as a moderate or greater challenge. Top challenges facing SME clients included economic uncertainty, rising costs, competition, and difficulties accessing finance.

Table 6.5 What clients want

| | Result | Quotation |
|----|---------------------------|---|
| 1. | Accessibility | "Be available for me, whenever, wherever." |
| 2. | Initiative | "Come up with ideas that will help me and my business." |
| 3. | Timeliness | "Be in the present, stay current with me, not focused on the past." |
| 4. | Comprehensible advice | "Relate to me in ways I can understand." |
| 5. | Client choice and control | "Give me options, let me choose." |
| 6. | Improved relationship | "It's more than just a transaction." |
| 7. | High level of expertise | "Practitioner has specialist knowledge." |

Take a few moments to review this list and consider its implications. You can see that the main emphasis is to be available to the client and involved in a relevant way with their business.

Many accountants focus on the specifics of the service they deliver. While this is important, you need to also look beyond the actual transaction at what the client is actually looking for.

Consider, for example, the preparation of a tax return. The accountant assumes this is what the client wants. But the client is more concerned about ensuring that their tax obligations are being met. The tax return is simply the mechanism for getting this done.

This highlights the importance of understanding what clients really want from their accountant. Firms then have the opportunity to develop so that they can deliver a service of real value to their clients.

Real value also needs to be considered vis-à-vis what the clients can afford and wish to pay. From a client-management perspective, this means there may be no need to over-service clients.

The results of polls and surveys like these will assist accountants in gaining a better understanding of how clients wish to be serviced and the various challenges they need assistance with.

6.4.2 Measuring Client Expectations

In order to measure and exceed client expectations, a number of steps must be completed.

Table 6.6 Steps to measure and exceed client expectations

| Step | Action Required |
|------|--|
| 1. | Know what your client's expectations are. |
| 2. | Quantify your client's expectations. |
| 3. | Check regularly to see whether their expectations are being met: <i>Ask your client.</i> |

It is only by understanding what a client expects of you that you can exceed those expectations. The client's expectations should be identified in your first meeting with them and then checked on an ongoing basis. Use the client questionnaire in [Table 6.1](#).

6.4.3 Exceeding Client Expectations

If you can exceed your client's expectations, you will ensure a long-term relationship with them and a constant stream of client referrals.

Exceeding client expectations is all about giving them something unexpected, something they did not predict. It has been called the "Wow!" factor, and it is worth considering as an effective way to enrich the client relationship.

This requires you to be innovative and creative. You must think constantly about how you can go beyond what they expect. As soon as you introduce an initiative, you will need to be thinking about the next one. You need to set the bar higher each time. A relentless, exciting progression!

As mentioned earlier, the technical areas are a given: you are expected to be competent in those areas. So, it is often in the nontechnical areas that you really make an impression.

IFAC's [Good Practice Checklist for Small Business](#) can be used by practitioners to help them determine what type of assistance a client may need. This checklist can provide a starting point for developing specific action plans for your clients which, when presented with industry benchmark data, can demonstrate your commitment to maintaining a long-term relationship and to provide value-added services.

6.4.3a Phone Calls

One example is an unsolicited phone call. After the initial chat, say something along the lines of, "I just thought I'd give you a call to see how your business is doing. How are things going?"

Clients usually warm to such a conversation very quickly and will soon talk about the issues they are facing. Sometimes there may be ways you can help, other times not. But you can be assured that your client will appreciate the call. This will go some way toward building your relationship with your client.

6.4.3b Does Your Client Understand You?

Key Performance Indicators (KPIs) are important for every business, and the practitioner is well placed to explain the financial indicators to their clients. KPIs based on the Profit and Loss Statement are usually of interest to the client. For example, a discussion of the break-even sales point or the safety margin will typically attract interest from the client.

Another approach might be to translate ratio analysis for your client. Explaining a ratio brings it to life. Consider the current ratio: the calculation is "current assets/current liabilities." Traditionally we would describe this in terms of "2:1," or "two times." This might be meaningful to the accountant but it doesn't necessarily make sense to the client.

It is possible to make that ratio more meaningful to the client. For example, you could rephrase it in terms such as these: "For every dollar of current liability, you have \$2.00 of current asset to pay for it." Or, "Last year, for every dollar of current liability, you had \$2.20 to pay for it, but this year it's down to \$2.00. Something has happened to the liquidity of the business." Now the ratio has come to life. It brings new meaning to the ratio and opens a whole new area of understanding for the client. It also opens the door to more meaningful discussion with the client on this topic.

By taking this approach to ratios, your own staff's understanding and interest will also increase. Your employees will enjoy preparing the ratios so they can assess your client's performance. You may wish to

give a staff member the responsibility of setting up your accounting software to produce the ratios and the sentences that go with them automatically.

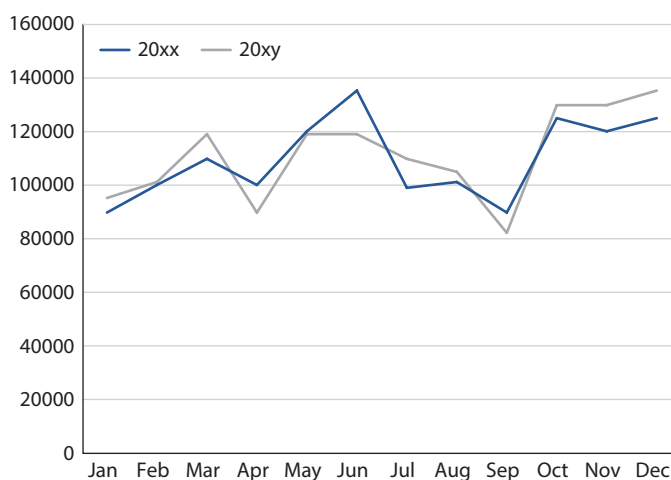
This is a simple example of how to engage with client, while at the same time improving staff morale by encouraging their involvement.

6.4.3c Graphs and Charts

“A picture is worth a thousand words.” Accountants are comfortable looking at numbers all day. They are accustomed to seeing the relationship between figures and financial situations. However, most clients are not like that. So, it is important to present information to clients in ways they can understand. Graphs and charts are a great way of doing that.

Most spreadsheet packages can generate graphs quickly. Yet is surprising how few firms present their client’s financial information in this form. It is certainly one of the most cost-effective methods of impressing your clients and giving them something of real value, something they can easily understand.

Figure 6.1 Sample sales graph



Consider other types of information that your clients would appreciate seeing in graph format, such as:

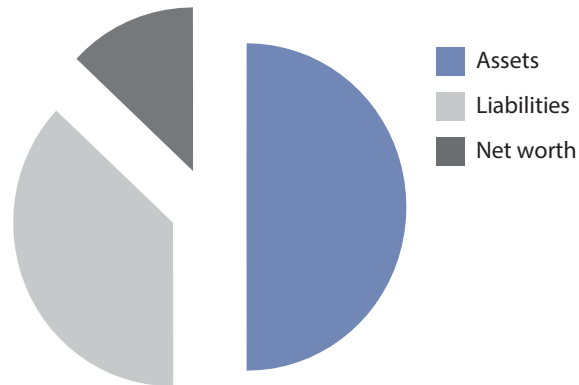
- Sales versus last year’s sales;
- Sales versus budget;
- Sales versus gross profit;
- Wages versus sales; or
- Sales versus net profit.

Many other combinations would be useful to graph. The important thing is to gauge the level of interest from the client. They usually show a keen interest when the graphs are shown and discussed. They often suggest other information they would like to see graphically represented in the future.

6.4.3d Pie Charts

Balance sheet items are often best shown in the form of a pie chart. Multiple formats can be used. Find the format that works best for your client and gives them the information that is most useful to them.

Figure 6.2 Sample balance sheet



There are other benefits to producing graphical information.

- It typically generates additional interest within the firm, as the results are so easy to understand, and arouses staff curiosity.
- Standard formats can be preset on your computer system and can be produced with the press of a button.
- Generation Y is highly computer literate and can usually produce graphs with ease, saving time and money in their production.
- The image and perception of professionalism are enhanced.

6.4.3e Other Services

A number of accounting firms have broadened the range of services they provide in response to demand from current and prospective clients. Review the following list and consider whether some of these services could be incorporated in your firm, in addition to traditional tax and accounting services.

- **Annual planning session:** Meet with client each year to map out, or update, the strategic direction of the client's business.
- **Develop action plan:** Assist in completing the action plan to achieve the goals identified. This includes identifying the necessary follow-up steps, and allocating responsibilities for tasks and deadlines.
- **Implement and update the action plan:** Ensure the plan is fully implemented, with regular follow-up meetings, mentoring, and coaching.
- **Goals and objectives:** Identify and establish the goals and objectives of the business, and together determine how to get there.
- **Organization chart:** Review the client's organization chart, including allocation of responsibilities and accountabilities. This also includes a review of position descriptions for each position.
- **Site visits:** Regularly spend time in the client's business to physically assess the continued sustainability and development of the business.
- **Regular Business meetings:** Meet in person or via video-enabled apps with the directors on a regular basis to discuss the financial performance, growth, and development of the business. This could be on a monthly or quarterly basis.
- **Management accounts:** Review the business's performance against the budget.

- **Annual budget:** Prepare and review.
- **Annual cash flow forecast:** Prepare and review.
- **Sales pipeline:** Regularly review.
- **Accounts receivable:** Review and track accounts receivable monthly. Consider the impact on the cash flow forecast, and bring any concerns to the attention of the directors.
- **Accounts payable:** Review and track monthly. Check against the annual budget allocation, and consider the impact against the cash flow forecast.
- **KPIs:** Identify the specific KPIs for the business that are to be regularly reported and relevant financial and nonfinancial information relating to the performance of the business.
- **Finance and funding:** Review the finance and funding arrangements that are in place to ensure that the most appropriate and cost-effective forms of finance are being utilized.
- **Bank manager:** Meet with the client and the client's bank manager annually to discuss the performance of the business and future plans. This discussion should include a review of the relative appropriateness of the funding arrangements in place.
- **Bank security:** This discussion will be linked to a review of the security the bank holds to support the finance structure. These meetings should coincide with a monthly management meeting.
- **Corporate structure:** Review and consider the corporate structure through which the business operates, to ensure it continues to reflect the client's intentions for the business.
- **Asset protection:** Link to the review of corporate structure a consideration of asset protection measures that are in place and whether the current structure is relevant and will continue to be so.
- **Investment plans:** Review and discuss the client's investment and development plans, in light of taxation and investment benefits. Be mindful of your local regulations in regard to what "advice" can be given here.
- **Succession:** Consider annually what the client intends to do regarding their succession. Include the timing of their progressive withdrawal from the business, and the relative position of the business in light of taxation issues, stamp duty, etc.
- **Estate:** Confidentially discuss and consider the legal wills of the client and the client's intentions in regard to their estate planning, from a financial and taxation perspective.
- **Insurance coverage:** Review insurance coverage in place to ensure it is appropriate for the current and ongoing needs of the client.
- **Insurance broker:** Meet with the client's business insurance broker annually to discuss the current level of insurance coverage and provide an update as to future plans and expectations. These meetings should coincide with one of the regular business management meetings.
- **Staff salaries and bonus structures:** Review and discuss staff salaries and bonus structures annually.
- **Risk assessment:** Conduct a formal risk assessment of the client's business annually to ensure key areas of risk are identified. Also ensure that appropriate risk mitigation strategies are identified and recommended.

- **Profitability analysis:** Conduct client profitability analysis and product profitability analysis to ensure that the clients and product lines that your client deals with are profitable. If not, review their continuation.
- **Key clients:** Meet the key clients of your client to discuss their financial terms and arrangements. Gain an understanding of their dealings with and expectations of the client's business.
- **Key suppliers:** Meet with the client's key suppliers to discuss their financial terms and arrangements, and seek to negotiate better terms.
- **Business Plans:** Review or prepare business plans for the client to be presented to banks or financiers.
- **Assets physical inventory reconciliation:** Assist the client in setting up a periodic physical inventory of assets and make a comparison between assets accounting records and data issued from assets physical inventory in order to find discrepancies and correct errors.

When considering which other services to introduce, subject of course to your client's openness to embrace these new offerings, you should be aware of ethical considerations and any local restrictions that may apply in your jurisdiction.

6.4.4 Internal Versus External Strategies

So far the discussion has focused on internal strategies to exceed your client's expectations. Other strategies include building on the relationship you already have with your client.

External strategies

Some accountants have semi-regular contact with some of their clients on an ad hoc basis. Many accountants only see their clients once a year, to sign their tax returns and financial statements, or conduct an audit.

Building closer relationships with your clients depends on changing this around. Set a plan for regular contact and a range of activities. This has a very positive proven effect on client relationships and the retention of key clients. It will almost certainly exceed their expectations and deepen the relationship you have.

The most important factor is to have a plan that covers:

- **Whom** should we invite: clients, prospects, referrers, alliance partners?
- **What** should we invite them to: what are their interests?
- **Where** is the event or function: how do we get clients there?
- **When** would this suit the client?

It is recommended you do this for your top ten or twenty clients, but you should also consider doing this for your prospective clients, referrers and alliance partners. It really is an excellent way to build and deepen relationships. Map these points in a table, as shown in [Table 6.7](#).

Table 6.7 Sample plan for regular client contact

| | Who | What | Where | When |
|-----|-----------------|--|------------------|-----------|
| 1. | ABC Ltd | Client Networking Event— <i>Cirque du Soleil</i> | City | March |
| 2. | CBC Bank | Business Financing Lunch | Local restaurant | May |
| 3. | Lew & Wing | Government Budget Briefing for Small Business | North Shore | May |
| 4. | Sokya & Epstein | Football: client is keen supporter of Wests football club | Football stadium | July |
| 5. | Morgan & Assoc | Tulip Festival: client is plant breeder/horticulturalist | Regional | September |
| 6. | Lawyers Co | Breakfast meeting to discuss referral and alliance prospects | City | October |
| 7. | Frontline PR | Local Race Day sponsored by Business Network | Race Club | November |
| 8. | IT Partners | Charity Golf Day | Muirfield | June |
| 9. | Abbott & Co | Health Smart Luncheon with Guest Speaker | Harbor | April |
| 10. | Damien W | Leadership Seminar | Central | January |

Subject to your country’s laws or professional regulations, there may be limitations on what you can do. The important point is to make the event or activity appealing to your clients or contacts. It is not necessary to spend a lot of money: it’s the contact that matters. In fact, it matters more than the event.

You might also decide to increase your client outings and contacts as an important step toward growing and developing your firm. Include members of your team. This will deepen the relationship they have with the firm and allow them to build closer relationships with the clients.

By planning your activities, you will see how much time you have available. You may wonder why you haven’t done something like this before! What a wonderful way to exceed your clients’ expectations, and will undoubtedly enjoy yourself as well.

Refer to [Table 6.8](#) as an example of the format to use as a planning tool.

Table 6.8 Client relationship management action plan

| Client | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
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6.5 Benchmarking Service Levels

6.5.1 Benchmarks

Benchmarks provide a powerful mechanism for monitoring business performance and identifying opportunities for improvement. At their most basic, benchmarks compare one set of information with another. It's important to decide exactly what you want to compare and what/who to compare against.

Benchmarking tools that compare a business' performance against industries and peers are freely available, simple, and easy to use. When used in conjunction with government statistics, they can provide useful insights into a client's risk profile. For firms wishing to provide expert benchmarking services, there are a wide range of online "user pays" diagnostic tools and health checks which facilitate the process.

Firms might also wish to refer to surveys that allow them to compare their own firm's performance against peers based on firm size and region.

The following key indicators can be benchmarked for client relationship management. Work your way through this list of indicators, and select the ones relevant to your firm. Determine your own benchmarks. Then regularly track your actual firm performance against these benchmarks (see [Table 6.9](#)).

Table 6.9 Benchmarking client relationship management

| Client Relationship Management Key Indicators | | |
|---|--|---|
| People | | |
| Staffing | Number of full-time equivalents (FTEs) | Number of employees |
| Client-facing staff | Number of FTEs (with client-facing responsibilities) Percentage of total staffing | Number of FTEs with client-facing responsibilities Client-facing staff as percentage of total staff We want this to increase as we improve our client relationship culture |
| Revenue per FTE | Firm's billings divided by number of FTEs | Indicates revenue per FTE Firm's aim is to increase this over time |
| Networking meetings attended | Number of meetings attended | Indicates intention of team to proactively market the firm To be tracked regularly and compared against target |
| Mentoring hours | Number of hours | Indicates number of hours team members have been mentored To be tracked regularly and compared against target |
| Productivity | | |
| Work in progress | \$ Value | Indicates how much time is recorded on timesheets yet to be billed to client Emphasis should be on recording time which the client will appreciate in the completion of their work |

| Client Relationship Management Key Indicators | | |
|--|--|--|
| Work in progress (WIP) | Age (WIP Days) | Indicates how long work has been in office and in progress Emphasis should be on reducing WIP days, thereby improving turnaround times for client |
| Accounts Receivable | Age (Debtor Days) | Indicates how long clients take to pay their accounts A very good indicator of client satisfaction Also a good indicator of our internal follow-up and control |
| Write-offs | Write-off (\$ value) | Indicates time charged, but not recoverable Firm takes decision not to invoice client, and writes it off WIP Emphasis to be on reducing write-offs. Time charged should be of value to the client, and therefore billable |
| Profitability | | |
| Net income percentage | Net income as percentage of total firm's billings | Indicates profitability of firm Indicator of capacity of firm to reinvest in people and client services |
| Labor as percentage of revenue | Labor costs as percentage of total firm's billings | Shows employment costs as percentage of billings Indicates if too many non-productive staff |
| Services | | |
| Services utilized | Number of services utilized (#) | Indicates number of services utilized by clients Indicates depth of client relationship Emphasis to be on increasing the range of services utilized |
| | Number (per annum) of additional services taken up by existing clients | Indicates additional services taken up throughout year Emphasis to be on increasing the services utilized by each client |
| | Number (per annum) of new services introduced by firm during year | Indicates new services introduced throughout year Emphasis on continuing to introduce new services to clients Positions firm as innovative and creative Firm may deliver the service, or it may come from an alliance partner |

| Client Relationship Management Key Indicators | | |
|---|---|--|
| | Revenue (\$ per annum) from new services introduced by firm during year | Indicates revenue value of new services introduced Important to separately identify Specific costs can be allocated against revenue to determine gross profit contribution |
| | Number of unsolicited client contacts made during week | Indicates how spontaneous and proactive you are. You need to be! Increase this number |
| | Number of hours spent on non-charged client-related initiatives | Indicates time you invest in your clients A number to track, not necessarily increase Caution: don't be excessive on this. You can't do everything for free! |
| | Number of proposals for new or additional services delivered during month | Indicates success of marketing new or additional services Emphasis is to increase this until target levels of service utilization are reached |
| Client service | | |
| Client ratings | Excellent (%) Satisfactory (%) Unsatisfactory (%) | Measure client satisfaction with regular surveys Provides feedback on firm performance and client perception Emphasis should be on continual improvement |
| Disputes | Number of disputes | Client disputes. Track the nature of the dispute and dollar impact Goal: no disputes |
| Extra service activity | Number of occurrences | Track non-standard service and assistance provided to clients Over and above normal service levels Emphasis is on increasing this activity on ongoing basis |
| Client referrals | Number of referrals | Number of new clients referred to the firm Indicates if existing clients happy with service levels and experience |
| Client seminars | Number of seminars | Indicates number of seminars held To be tracked regularly and compared against target in marketing plan |

6.6 Embracing Opportunities for Enhanced Relationships

So far, this module has shown ways to develop the relationship with your client—this is of great importance to the firm, and there are various methods to use. The next section is on making the most of the opportunities that arise as a result of this enhanced relationship.

Recall the client classification model (see [Section 6.3.1](#)). You will recall that your goal is to move your clients from their current classification category to the next level up.

6.6.1 Using Gap Analysis

Gap analysis is one of the more powerful business development tools. It is simple, yet can produce remarkable results. The model is produced in [Table 6.10](#); how to use it is shown below.

Figure 6.3 Gap analysis model

| | | Services | |
|---------|----------|----------|-----|
| | | Existing | New |
| Clients | Existing | 1 | 2 |
| | New | 3 | 4 |

Gap analysis provides a brilliant framework for your client relationship management strategy. It provides the context within which you determine your next step.

Quadrant 1: Existing services to existing clients

Quadrant 1 is all about understanding your existing client base. It answers the question, “Do all of our clients use all of our services?” The answer is typically “No!”

The follow-on question then becomes, “Which of our clients use which of our services?” The answer to this question will highlight where the “gaps” are. It will highlight where your marketing activity needs to focus, with the aim of increasing the number of services each client uses.

As a matter of priority, list all of your clients and the services they use. It works best to do this on a spreadsheet. This will clearly show you the clients you should be targeting **now**, to increase the take up rate of services. [Table 6.10](#) gives examples of the services used by different clients of an accounting firm.

Quadrant 1 also shows the “Path of Least Resistance.” Your clients know and trust you and are more likely to be open to your suggestion to use additional services.

Table 6.10 Existing client–service matrix

| | | Audit | Accounts | VAT/Sales Tax | Income Tax | Finance |
|-----|------------------|-------|----------|---------------|------------|---------|
| 1. | ABC Ltd | X | X | | X | |
| 2. | SCK Chin Pty Ltd | | X | X | X | |
| 3. | Smith & West | X | X | | | |
| 4. | Impala & Co | | X | X | X | |
| 5. | Lawyers Co | | X | X | | |
| 6. | Frontline | | | X | X | X |
| 7. | Hanif Partners | X | X | | | X |
| 8. | Laurence Yuen | | X | X | X | |
| 9. | Jersey Co | | X | X | | |
| 10. | San Marco | | | | X | |

Showing the services utilized in this matrix format demonstrates where the opportunities lie for promoting additional services.

Identify where the “gaps” are, and focus your attention on those clients with gaps. Meet with them to discuss the other services you have to offer and how they can be of benefit to the client.

Quadrant 2: New services to existing clients

This presumes you have new services available and they’re ready to take to the market.

Quadrant 2 shows that the best market to promote your new services to is your existing client base. Existing clients who are satisfied with your firm’s service will be open to new services, even if on a trial basis.

After Quadrant 1, Quadrant 2 is the second path of least resistance. It should be pursued once you have mined Quadrant 1 completely. You also have to think about the client’s ability to pay: some of them pay for accounting services because of an imposed compliance obligation but may be reluctant to pay for other services even if they are relevant.

Past IFAC Global SMP Surveys have identified that one of the most important drivers of practice growth for SMPs is additional revenue from existing clients. Past surveys have highlighted the importance of working with existing clients, ensuring they are happy with your existing services, therefore, making them more open to approaches about new services. Remember to focus on the benefits the client will receive from the new service.

Quadrant 3: Existing services to new clients

Here, you are looking for new clients to utilize your existing services. The advantage here is that the services are not new to you. You’re familiar with the processes involved, you know what you’re doing, and the systems are all in place. IFAC SMP Global Survey results have continuously identified the acquisition of new clients to be the primary driver of future practice growth for SMPs.

Quadrant 4: New services to new clients

This is where you look to break into new markets with new services. Quadrant 4 is the hardest option: these services are new to you and also new to the market. There are likely to be multiple aspects you have yet to come to terms with. At the same time, you will be coming to grips with a whole new prospective client group you will need to market to and understand.

From a business development perspective, it is better to exhaust the other three quadrants before addressing Quadrant 4. It is best to consider very carefully during tougher economic times.

6.6.2 Summary: Maximizing Opportunities

The steps to maximize the opportunities from an enhanced client relationship are summarized in [Table 6.11](#).

Table 6.11 Maximizing opportunities from enhanced client relationships

| Opportunity | Action Required |
|-------------|--|
| 1. | Be clear on the direction you wish your firm to take. This should be clearly stated in your business plan. |
| 2. | Be specific about which services you will offer your clients. |
| 3. | Have a good understanding of how the services will be delivered, and how they will be priced. |
| 4. | Undertake a gap analysis on your client base. |
| 5. | Identify the additional services you can market to your existing clients. |
| 6. | Set a plan for how and when you will approach your clients. |
| 7. | Have marketing material available at all times, which outlines the benefits of additional services. |

6.7 Developing Strategies to Provide a Full Range of Quality Services

There is a series of steps toward developing strategies to provide a full range of quality services (set out in [Table 6.12](#)).

Table 6.12 Steps to developing a full range of services

| | Action | By Whom | By When |
|----|---|---------|---------|
| 1. | Determine what your market considers the full range of services to be. | | |
| 2. | Identify those services your firm currently provides. | | |
| 3. | Decide which additional services your firm would like to develop capability in. | | |
| 4. | Determine which services you will refer to other firms. | | |

As a result of the information gained, your firm can decide which services it will continue to provide, which services it will develop, and which services it will refer to other firms.

6.7.1 Identifying the Services Required in the Marketplace

Ask your clients what their current requirements are and what they expect them to be over the next few years. You may do this by running a focus group, or simply by asking your clients and contacts.

Use the list of suggested services in [Table 6.13](#) to determine the level of interest for each service suggested.

Table 6.13 Services checklist

| | Service | Do you Use this Service Now? | Would you Expect to Use it in the Future? | Comment |
|-----|---------------------------------------|------------------------------|---|---------|
| 1. | Audit and assurance | | | |
| 2. | Taxation advice | | | |
| 3. | Financial statements | | | |
| 4. | Management accounting | | | |
| 5. | Tax return preparation | | | |
| 6. | Regulatory compliance | | | |
| 7. | Company secretarial | | | |
| 8. | VAT preparation and compilation | | | |
| 9. | Business valuations and due diligence | | | |
| 10. | Financial planning | | | |
| 11. | Business coaching and mentoring | | | |
| 12. | Tax planning and consulting | | | |
| 13. | Insolvency and liquidation | | | |
| 14. | Corporate finance | | | |
| 15. | Risk management and asset protection | | | |
| 16. | Finance broking and mortgage lending | | | |
| 17. | Succession planning | | | |
| 18. | Wealth management and coaching | | | |

[Table 6.14](#) lists related services that accounting firms may provide, or could provide introductions for. Again, you may choose to ask your clients, potential clients and contacts which of the following services would be of interest to them and their businesses.

Table 6.14 Related services checklist

| | Service | Do you Use this Service Now? | Would you Expect to Use it in the Future? | Comment |
|-----|-----------------------------------|------------------------------|---|---------|
| 1. | Information technology provider | | | |
| 2. | Residential real estate agent | | | |
| 3. | Commercial real estate agent | | | |
| 4. | Finance broker | | | |
| 5. | Taxation specialist | | | |
| 6. | Stockbroker | | | |
| 7. | Personal risk insurance agent | | | |
| 8. | Lawyer | | | |
| 9. | Banker | | | |
| 10. | General insurance broker | | | |
| 11. | Human resources provider | | | |
| 12. | Utilities | | | |
| 13. | Stationery and office consumables | | | |

These questions work well when asked in a formal and structured way. Many accounting firms simply don't ask many questions of their clients to gain a better understanding of their needs. You can differentiate yourself in the market by asking questions like these, and gaining an understanding of what your clients really want. Your firm must then decide if it will provide the service, develop the capability internally, or refer clients on to other firms.

Consider using the questionnaire shown in [Table 6.15](#). Firms looking to introduce a broader range of services to their clients and the marketplace in general may complete this. Your opportunity to offer these services will be subject to local restrictions and ethical considerations.

Table 6.15 Internal questionnaire

| | Question | Reply/Comment |
|----|---|---------------|
| 1. | What services do our clients need? | |
| 2. | What is the best way to find out? (for example, questionnaire, focus group, etc.) | |
| 3. | Can we provide these services? If so, which ones? | |
| 4. | If not, which services can we develop internally? | |
| 5. | What resources and training will be required if we choose to develop the competency in-house? | |
| 6. | Which services should we refer to another firm? (See next section.) | |

6.8 Strategies for Providing a Full Range of Quality Services: Mergers, Networking, Referrals

The exercises above may demonstrate to firms that they need help to provide a full range of services. Some firms may wish to form an alliance with another firm. [Table 6.16](#) shows the questions to ask.

Table 6.16 Forming an alliance

| | Question | Reply/Comment |
|----|---|---------------|
| 1. | Whom should we align with? | |
| 2. | How will we assess their competence and capabilities? | |
| 3. | What structure should our alliance or referral arrangements take, if any? | |
| 4. | What quality assurance processes will we have in place, to ensure our partners provide quality service? | |
| 5. | Should there be any financial arrangements to consider? | |
| 6. | Which services should we refer to another firm? (See next section.) | |

In deciding which organization to ally with, the starting point is for the firm to assess the services they are likely to refer to other firms. The firm should then consider the likely contenders (see examples shown in [Table 6.17](#)).

Table 6.17 Target list of possible alliances

| Specialization | Name of Firm, or Person | Preferred Arrangement | Action Required | By Whom | By When |
|---------------------|-------------------------|-----------------------|-----------------|------------------|------------|
| Financial Planning | Sharpe Planning | Joint Venture | Meet to discuss | PK | April 15 |
| Stockbroker | Gecko & Assoc | Alliance | Lunch | PK & GG | May 31 |
| Audit and assurance | Smith & Co | Referral | Meet to discuss | PK | June 25 |
| Business Coach | Maximus Consulting | Potential merger | Due diligence | Third-party firm | October 15 |

6.8.1 Common Concerns with Referrals or Introductions

A number of concerns arise when clients of one firm are introduced and referred to another firm. These include concerns that the referred firm will:

- Not give the client a good, professional experience;
- Not provide service at the standard that the client and referring firm would expect;
- Disappoint or upset the client; or
- Destabilize the relationship the client has with the referring firm.

These concerns all stem from the fact that most firms strenuously protect the relationships they have with their clients. Most firms will do all they can to retain their clients and enjoy a long and healthy relationship.

Prior to the commencement of any referrals, each firm involved is advised to do a “mini due diligence” on each other. This will allow the firms to confirm that each has the same concern for client welfare as the other does. This should also ensure that the client has an excellent professional experience.

Table 6.18 will assist you to determine the attitude of your referral partner toward client service and satisfaction.

Table 6.18 Discovering Your Potential Referral Partner's Attitudes

| | Question | Reply/Comment |
|----|---|---------------|
| 1. | Describe how you and your firm will deal with any clients we may refer to you. | |
| 2. | Describe the attitude you and your firm have toward client service. | |
| 3. | How will you ensure that our clients will have a good professional experience with your firm? | |
| 4. | Describe the level of client service you and your firm provide. | |
| 5. | What assurances can you give that you will not upset the client, or destabilize the relationship we have with them? | |
| 6. | Which services should we refer to another firm? (See next section.) | |

This type of discussion will allow each firm to better understand each other's service standards. It will also allow each firm to make its expectations clear to the other.

The various strategies that can actually deliver the full range of services to the client base and marketplace are shown below.

6.8.2 Mergers

This is where two firms join together to form one new firm. It was discussed in [Module 3](#) as a growth strategy and is equally relevant when considering the delivery of quality services. Mergers are also examined in more detail in [Module 8](#).

There are a number of issues that typically arise during a merger. Differing work cultures often raise questions about:

- Work ethics;
- Work–life balance (hours expected to be worked each week);
- Work practices;
- Blending of personalities;
- Human resources;
- Different expectations;
- Technology;
- Billing and debt collection practices;
- Profitability variations; and
- Two becomes one.

There are also a number of advantages and disadvantages to consider.

Advantages

- Each firm brings its unique strengths to the combined firm, thereby making more services available to all.

- There are economies of scale: a more efficient team can usually do more work.
- There is a reduction in duplication of effort and certain staffing roles.

Disadvantages

- A merger is an extreme position to take if you are simply providing one or two additional services.
- The issues arising from the merger might cause significant distraction to the business. This may have a negative impact on profitability, workflow and the overall client experience.

6.8.3 Cherry-Picking

Rather than merging two firms, it may be possible for one firm to “cherry-pick” or “headhunt” a partner or senior manager from another firm who has specialist skills the firm needs.

The specialist may have a small team of workers who may also join the new firm. Essentially, this allows the firm to create a new division and provide a broader range of services.

Advantages

- Simplicity of approach.
- Usually only minimal disruption.

Disadvantages

- It could be an expensive exercise to attract the right person.
- It could be an expensive exercise if it doesn't work out.

6.8.4 Alliances

When two or more firms, or specialists within firms, work together on client matters on a project-by-project basis, this is an alliance.

Advantages

- Each party retains its individual identity and structure.
- There is a combined focus on the joint objective of satisfying the clients' requirements.
- It allows each party to bring their specialist skills to the table, for the overall benefit of the client.
- The fee on the assignment is usually split on the basis of contribution to the project.

Disadvantages

- There is potential difficulty with sharing resources on occasion.
- No centralized administration.
- There is potential for conflict, as one party typically needs to take the lead role.

6.8.5 Referrals

One firm refers work to another firm (see [Table 6.19](#)). These arrangements are very popular. Some are tightly structured, with a minimum number of cross-referrals required per month. Others are loosely structured, and there is simply an agreement between the firms to refer work as the need arises.

In some arrangements, referral fees are paid between the firms, usually in some proportion to the value of the fee on the project. Others have no referral fees, as the referring firm is simply concerned about the client matter getting resolved by the most suitable person.

Advantages

- They are flexible in structure.
- They are flexible in financial arrangement.
- The arrangement allows each firm to stay focused on its area of specialization.
- Each party retains its own independence.

Disadvantages

- The referring firm has no control over the work performance of the referred-to firm.
- Low-standard work by the referred-to firm may reflect badly on referring firm.
- The referring firm must trust in the ability of the referred-to firm.

You should consult the IESBA Code or your professional body for further guidance regarding the receipt of referral fees or commissions. Ethical threats and safeguards are examined in [Module 7](#).

Table 6.19 Sample plan to deliver a full range of quality services

| Services Required by Clients and/or Market | Services Currently Provided | Strategy for Delivery of Service We do not Currently Provide | Action Required | By Whom | By When |
|--|-----------------------------|--|--|-----------|----------------------------|
| Taxation | Yes | Not applicable | N/A | | |
| Audit | No | Referral to audit firm | Develop relationship with professional colleagues who provide audit services | PK | March 31 |
| Company secretarial | Company secretarial | Not applicable | N/A | | |
| Business valuations and due diligence | No | Referral to specialist firm | Find appropriate firm. Check with professional colleagues for reputable firm | PK | June 25 |
| Liquidation | No | Referral to specialist firm | Contact previous colleagues | PK | As soon as possible (ASAP) |
| Succession planning | No | Referral, then possible merger | Have lunch with Brian to discuss | PK and BC | October |

6.9 Invoicing and Collection

This module has said a great deal about the importance of a good working relationship with your client. However, it is equally important that you get paid for the work you do. The following discussion addresses credit control and some proven collection techniques, before discussing some of the reasons why some clients don't pay.

6.9.1 Credit Control

Use these tips to develop an effective approach.

- Develop a credit policy. Write a clear and concise credit policy that applies to all clients.
- Consider flexible arrangements for your larger clients.
- Specify clear terms: make your clients fully aware of your terms and conditions.
- Implement the policy: train your employees on the policy and how to enforce it.
- Screen prospective clients: there is no sense taking on new clients if they don't pay you.

6.9.2 Collection Techniques

These techniques will enable more successful collection of payments.

- Explain your credit terms and expectations clearly from the outset.
- Make sure your clients understand them.
- Quantify your fees in advance where possible (it usually is).
- Provide payment alternatives.
- Follow up debts systematically and frequently.
- Replace the aging classification of your debtors; instead of "Current, 30 Days, 60 Days, 90 Days, 90+ Days," use only "Due Now" and "Overdue."
- Commence follow-up early.
- Make it easy for your clients to pay.
- An effective collections process requires regular weekly attention.

To get the best results, focus on the "just overdue," as these are the easier accounts to collect.

6.9.3 Some Fundamental Rules

- Invoice by email rather than post: it is faster and provides you with online records.
- Invoice as close as possible to the time you deliver the service.
- Start the follow-up process early.
- Don't wait to follow up. When the account is overdue, start reminding the client that payment is expected.
- Always be courteous and professional.
- Collections should be a process, not a punishment.
- Most clients are honest and will pay if they know they have to.

- A series of gentle, non-confrontational reminders will get most clients to pay.
- Be persistent and consistent—this is essential.
- Consider the benefits of offering incentive options, like small discounts for early or prompt payments.

As you can see, this process is really all about communicating with clients to make sure they are fully aware of your firm's requirements.

One of the secrets of effective debt collection is to have a system that makes it as easy as possible for your clients to pay on time. A good collection system starts with the initial client contact, and moves through the whole workflow process to invoicing, and then to any follow-up.

Early identification of clients who have poor intentions regarding payment of their account will ultimately determine the success of, or level of frustration with your system. Not having a system will ensure poor results.

6.9.4 Why Clients Don't Pay

There are typically a number of reasons, most of which you can deal with.

1. Client has a genuine dispute

The best approach is to start follow-up early. A reminder letter will flush the issues out, and it is far easier to resolve a complaint when the matter is still fresh.

Waiting ninety days to find out a problem exists significantly reduces your chances of a successful resolution and payment in full.

2. Client is careless

The client forgot to pay the invoice, or simply didn't understand when they were supposed to pay. This may have been because you weren't particularly clear about your terms.

The best approach is to start early, and make it easy for your clients to pay. A reminder letter is a gentle prompt and has a great result for this group. There are many other things you can do **before** you issue the invoice that will increase your chances of being paid on time. It is important to be extremely clear with your client in regard to your terms and expectations.

3. Client is disorganized

Once again, the best approach is to start early and make it easy for your clients to pay. If they are disorganized now, they will still be in trouble in sixty days. Don't join the queue of creditors: move to the front.

4. Client has no money

The intent is there but not the cash. Again, the best approach is to start early and make it easy for your clients to pay. Getting payment arrangements agreed upon early ensures a greater chance of being paid in full. Small regular amounts confirm the client's intent.

If they are in real trouble, it is important to find out early. This lets you avoid doing more work. Alternatively, you might see an opportunity to assist the client in sorting out their problems.

5. They are unconcerned and can't be bothered

The best approach is to start early and be difficult to ignore. You must be persistent with this type of client. You should also consider alternative payment arrangements before you do further work.

You should also assess whether you wish to continue acting for clients such as these, as they are likely to be outside your target client model.

6. They are dishonest

This is not the type of client you should continue with. The best approach is to start early and be difficult to ignore. Also, don't get emotionally involved in your communications with this client. Ensure that you have established rules internally and that your collection system is followed consistently.

Do no further work for this client, and decide on an exit strategy for them after they have paid in full.

6.9.4a The Engagement Letter

The engagement letter outlines the scope of work you will do for the client and also outlines the terms and conditions of trade of the firm. Each firm should carefully consider how to incorporate their trading terms into their client-engagement letter. This becomes a strong piece of evidence in any dispute, particularly when the client has signed their acceptance of the engagement.

6.10 Conflict Resolution and Arbitration Services

This module is about the development of client relationships. Unfortunately, sometimes that relationship breaks down. This section will concentrate on the relationship between the client and the firm. However, it is worth noting that the strategies discussed apply equally well to all relationships, whether they are in the workplace, or in a private context.

6.10.1 Five Signs of Rising Conflict

In order to begin to resolve conflict, there needs to be an awareness that conflict is happening, or is about to happen. You need to be sensitive to the signs of conflict. There are five levels of escalating seriousness in a typical conflict situation.

1. Discomfort

Discomfort is the vague feeling that something is not quite right between you and the client, even though nothing may have been said or done overtly. This is a good time to consider reaching out to the other person to explore whether or not there is a problem.

Think about possible causes of the discomfort, either in yourself, the other person or the total situation. Ask yourself, "What steps can I take, what questions can I ask, what can I do right now to clarify and perhaps relieve the problem?"

This requires you to take the first step in clarifying any issue. It may be difficult to bring yourself to do this, but it is an important step.

2. Incidents

This is where there is a minor clash or disagreement between you and the client. Although you don't feel particularly upset, it may disturb, surprise or irritate you enough to remember it for a day or two. This is a step beyond mere "discomfort."

You may choose to discuss this with your client, in order to clarify any issues or fallout from the disagreement. However, you may find this awkward, decide to let the moment pass, and let the passage of time heal any small wounds.

3. Misunderstanding

In situations where there are different expectations between your client and your firm, or where communication is incomplete, words and actions can be misinterpreted. Unfortunately, this can often lead

to misunderstanding. This is especially the case where there is a lack of rapport or openness between the client and the firm.

As a result, you start to pay close attention to things that confirm what you had already started to believe about the other person, or about the situation. This then becomes a “self-fulfilling prophecy” as you see more and more instances confirming your belief that the client is in the wrong.

4. Tension

When you are experiencing tension in the client relationship, your feelings and perceptions about nearly everything they say or do can become quite negative. It may come about from a simple misunderstanding that quickly escalates.

In these situations, you will find it difficult to interact or work with them without feeling anxious or defensive. It is then likely that you will be concerned about losing them as a client and the potential damage to your firm or reputation as a result.

5. Crisis

In a crisis situation, people tend to behave in extreme ways that they would normally not even consider. This may have significant consequences for a firm, depending on the actions the client or the firm takes.

As examples, the types of behavior that represent a crisis include actual or threatened physical violence, verbal and emotional abuse, destruction of property, or the breakdown of the client relationship. This can become particularly difficult for a firm if the client takes legal action against the firm and reports the firm to their professional body.

6.10.2 Dealing with Conflict

Fortunately, you can address any of these stages in a number of ways. It is important to learn these methods, as you never know when you may need to call on them.

1. Don't react, respond!

- Keep yourself calm in the present moment.
- Breathe deeply to compose yourself.
- Maintain your composure; be receptive.
- Keep track of your emotions, reactions and body language.
- Consider how you are coming across to the other person.

2. Let your position go

- Don't be defensive.
- Respect the other person's need to express how he or she feels.
- Move aside from your position for now.
- Be prepared to be flexible, and consider options.
- Ask, “What would it take to solve this issue?”

3. Focus on the other person

- Listen actively and reflect feelings and the meaning he or she has expressed.
- Listen so that people can and will talk.

- Are you really listening? Is that clear?
- Acknowledge the importance of the other person's issues and concerns.

4. Seek clarity

- Check, clarify and confirm by asking open and reflective questions.
- Honestly explore problems, effects and possible causes.
- Look for opportunities in what you are hearing.
- What would they like? What would they not like?
- See the problem in a broader context. Are people seeing the whole picture, or just their own point of view?

5. State your position

- Explain how it is for you, using statements which clearly state your position.
- Stay in tune with your values, principles and objectives.
- Express your own needs and concerns assertively, but not aggressively.
- Attack the problem, not the person. Speak so that people will listen, not in angry or aggressive tones.
- Be soft on the people, hard on the problem.

6. Look for a win-win outcome

With a “win-win” outcome, both parties' needs and concerns are respected.

- What are the best possible options to meet both parties' needs?
- Identify areas of “common ground” and build from there.
- What will help achieve solutions that are mutually satisfying?
- Would more time or information help?
- Identify and work on the issues causing the “blockages.”
- If possible, work together for change, or you may agree to disagree.
- Be creative, look for possibilities. What's the most positive outcome you can both achieve?
- Get commitment and agreement on the next steps.

7. Maintain the relationship

- Review progress and follow up.
- Take time to maintain and strengthen the relationship.

As you can see, conflict resolution is a big issue—but there are tools and techniques for dealing with it. The relationship with your client is an important one and has far-reaching consequences. By gaining a better understanding of conflict, and ways in which to handle it, you will be better able to cope with these situations if they arise, and continue a satisfactory relationship with your client.

6.11 Ceasing a Client Relationship

After completing the client-classification exercise, you will be in a good position to assess the client base of your firm. One of the outcomes of this process may be that you decide to end some client relationships. It may be that they no longer fit the profile of your firm, or that after considering a number of factors you have decided your firm should no longer deal with them. Whatever the reason, you have come to a significant decision.

The way you handle the client departure is very important. There are a number of ways to end a relationship with a client, including:

- Sending a letter stating that you are no longer available to act on the client's behalf;
- Increasing fees until the client leaves;
- Referring the client to another accounting firm;
- Selling the client; or
- Meeting with the client and talking it over. Each of these is discussed briefly below.

6.11.1a Sending a Letter

This is the most formal and, some would argue, the most professional way of ending a client relationship. These letters tend to be fairly brief and to the point. However, the content usually depends on the relationship the firm has had with the client over the years. This will determine how much detail the firm discloses as to why it is ending the relationship.

Whatever the reason, it is important to state quite clearly that the relationship will end, or has ended, and that the client should seek alternative professional advice and service. It is also customary to add your best regards and wish the client well in their future endeavors.

6.11.1b Increasing Fees

This method involves increasing the fees charged to the client on a progressive basis. It is hoped that the client will eventually come to the conclusion that the firm has become too expensive and make the decision to leave.

There are a number of problems with this strategy.

- The client might not leave. If they don't leave, you will have to continue putting up with them (but at least you're getting paid!).
- The client might not pay the fee, but still expect the work to be done. If this happens, you will have incurred costs in preparing the work but will then see lengthy delays getting paid.
- The client may become obnoxious (or more obnoxious). They may already be obnoxious, but they may become worse. This puts additional pressure and stress on your employees. Such pressure is probably not worth it.
- They may report you to your professional body. You may not be breaching any regulations, but your client may argue that you are not acting professionally.

Another possible outcome is that the client comes to appreciate the true value of the service your firm is providing, and the relationship improves.

6.11.1c Referring to Another Firm

This is quite a popular method. Firms with different specializations or skills may refer clients between themselves. The referring firm may have realized that the relationship with the client is not working, yet thinks it might work with another firm. The referral can take place in writing, face to face, or over the phone. The firm maintains credibility in the eyes of the client, as the client has been provided with an alternative adviser, and the matter has been handled in a professional manner.

6.11.1d Selling the Client

It may be possible to bundle a number of clients together and sell them to another firm that may appreciate these clients.

6.11.1e Meeting with Client

This is the preferred approach. After all, the client you are saying good-bye to has paid your firm over the years. They have supported you to some degree. But now, for any number of reasons, the relationship has come to an end.

A face-to-face meeting is most highly regarded by clients when they are told their relationship is over. It gives the opportunity for other matters to be discussed. It also allows for any misunderstandings to be cleared up, and for best wishes to be given.

6.12 Conclusion

Strong and effective client relationships are the backbone of your firm. As this module has made clear, you need to really know your clients, and what they want. Good business practice requires that you meet and, where possible, exceed these expectations. There are many resources and methods available to help you to improve and cement your client relationships, including networks, referrals, and other alliances. Even where there is conflict, good client relationship skills can help you to achieve a positive outcome.

6.13 Further Reading and IFAC Resources

The [IFAC Global Knowledge Gateway](#) is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 6.1 Case studies

Case study 1

This case study relates to [Section 6.4.3](#), “Exceeding client expectations.”

William and Indira had noticed there was increased competition in the market they were operating in. More accountants were competing with them for the same clients, but some of these accountants were reducing their prices to increase their market share. William and Indira decided to provide additional value to their clients rather than simply matching the lower fees their competitors were offering.

The first area they reviewed was the presentation of clients’ financial statements. They agreed with the idea that graphs should be included in all reports prepared for their clients. They discussed this with their staff, and the staff also agreed it would add an extra element to their financial statements.

One employee, Manu, had excellent skills in Excel and put together a number of standard template graphs. He saved these as “Masters” on the office computer system, which meant they were then available for the entire staff to use.

Manu trained the staff in how to update the “Masters” with the relevant client information and save them as separate client files.

Once the training was complete, Indira sent a memo to all staff instructing them to complete a set of graphs with all year-end financial statements for clients. William and Indira had decided that for the majority of clients they wanted a line graph to plot sales for the year against sales for the prior year. They also wanted a pie chart to represent the balance sheet. Staff were instructed to prepare these graphs each time they ran a final set of accounts for their clients—unless the information was unavailable or would require too much time to compile.

Clients reacted very favorably. Most clients appreciated the extra information the graphs provided, though some were concerned it would create additional costs. William and Indira assured the clients that the graphs would not cause a fee increase and they were included so the clients could more easily understand the financial information they received.

An unintended benefit arose for William and Indira’s firm after they started producing the graphs with the financial statements. There was an increase in the level of inquiry from new clients who had heard about the graphs being produced by the firm; they also wanted graphs with their financial statements.

The level of interest which had been generated from the introduction of a simple initiative such as the graphs encouraged William and Indira to consider other measures they could introduce to add additional value for their clients.

(This case study is based on a true story.)

Case study 2

This case study relates to [Section 6.6](#), “Embracing opportunities for enhanced relationships.”

William decided to introduce a planning-session meeting for his key clients at the beginning of the new financial year. He decided he would restrict the planning session to just his top five clients and see how well the idea was received. All of the clients he discussed the idea with were delighted to be involved.

William structured the session around the following agenda:

Planning Session Agenda

- Identify the key objectives for the business
- Identify three goals to be achieved this year
- Identify the most pressing issue to be addressed urgently
- Identify the key milestones
- SWOT analysis
- Identification of client's strategic plan
- Review organization chart
 - Allocate responsibilities
 - Identify accountabilities
- Budget and cash flow: set date for completion and review
- Other business
- Set date for next meeting

William was pleased with the response he received from his clients when he started working with them on the planning for their businesses. He had assumed most business owners spent quite a deal of time on planning already and was surprised to discover that most spent very little time on this most important aspect of their businesses.

There was only one client who was not particularly interested in assistance from William. After discussing the reasons with the client, William discovered that the client considered William not particularly skilled in this area and preferred that William stay in the accounting arena! However, all the other clients were delighted to take up William's offer for assistance with their planning.

One of the key results of the planning session is to establish key milestones—achievements that the business seeks to reach throughout the year. Achieving them lets the business owners know they are on track to achieve their full-year goals. It also means William gets to meet the clients at regular intervals throughout the year, which gives him the opportunity to provide additional services and generate additional fees.

(This case study is also based on a true story.)