ReceiptBank™

CREATING VALUE:

HOW TO FIND YOUR MOST PROFITABLE CLIENTS

Introduction

Adding value for clients is your aim as a modern accountant and business adviser. But have you ever stopped to review whether your clients are adding value for you, as a practice?

If you're working with businesses that drain your resources, eat into your time and don't deliver a good profit, then these clients could actually be damaging the value of your firm.

So, how do you know if a client is a keeper, or a customer to ditch? The answer is to use our Magic Quadrant evaluation tool to ensure your clients are adding true value for your firm.

The Magic Quadrant shows you how to:

- Categorise clients based on the value they'll bring to your firm.
- Recognise your most (and least) valuable clients.
- Transform troublesome clients into dream clients.
- Fire those troublesome clients at the right time.

Getting value from the effort you put in

When you put effort into a client relationship, you want to know that it will deliver the right result.

The Pareto Principle is a useful tool for analysing client revenue. According to this principle, about 80% of your revenues will come from the top 20% of your clients. And that's a strong reason identify who those ideal clients are and prioritise them.

To do this, export your client list with respect to hourly rate, hours billed, revenue and percentages of hours billed and revenue made. Once you have that list, start sorting clients by revenue brought in, or the percentage of hours worked that have been successfully billed out.

Here is an example client list and hypothetical revenue structure for Accounting Firm X.

Client List	Hourly Rate	Hours Billed	Percent of Hours Billed	Revenue	Percent of Revenue
Client 1	£150	125	14%	£18,750	13%
Client 2	£150	100	11%	£15,000	10%
Client 3	£150	100	11%	£15,000	10%
Client 4	£200	75	8%	£15,000	10%
Client 5	£175	200	22%	£35,000	24%
Client 6	£150	75	8%	£11,250	8%
Client 7	£150	125	14%	£18,750	13%
Client 8	£100	50	5%	£5,000	3%
Client 9	£150	75	8%	£11,250	8%
Totals	**£157 Avg.**	**925**	**100%**	**£145,000**	**100%**

In order to find the real 'value' to the firm of these clients we need to know more. Total revenue says nothing about profitability, and hours billed says nothing about lost opportunity costs.

To use 80/20 thinking we'd want to know two other pieces of information:

- How many total hours did the firm work on each client that it did not bill?
- What was each client's share of the firm's costs

Including this in our analysis:

Client List	Hourly Rate	Hours Billed	Percent of Hours Billed	Revenue	Hours Billed to Hours Worked	Total Hours Worked	Pareto Cumulative Hours Worked	Total Costs	Profit	Profit (%)	Profit as a (%) of Total Profit	Pareto Cumulative Profit
Client 1	£150	125	14%	£18,750	90%	139	9%	£8,333	£10,417	56%	**37%**	37%
Client 2	£150	100	11%	£15,000	80%	125	18%	£7,500	£7,500	50%	**26%**	63%
Client 3	£150	100	11%	£15,000	70%	143	28%	£8,571	£6,429	43%	**23%**	85%
Client 4	£200	75	8%	£15,000	80%	94	34%	£11,250	£3,750	25%	13%	99%
Client 5	£175	200	22%	£35,000	70%	286	54%	£30,000	£5,000	14%	18%	116%
Client 6	£150	75	8%	£11,250	40%	188	67%	£11,250	£0	0%	0%	116%
Client 7	£150	125	14%	£18,750	50%	250	100%	£22,500	(£3,750)	-20%	-13%	100%
Client 8	£100	50	5%	£5,000	40%	125	75%	£5,000	£0	0%	0%	116%
Client 9	£150	75	8%	£11,250	65%	115	83%	£12,115	(£865)	-8%	-3%	113%
Totals	**£157 Avg.**	**925**	**100%**	**£145,000**	**65% Avg.**	**1464**		**£116,520**	**£28,480**	**18% Avg.**	**100%**	

You can see that Accounting Firm X makes an 18% profit. We also hope you see that 80% of their profit comes from 18% of the total hours worked (just those first 3 clients).

The magic quadrant of client evaluation

To get a better handle on the quality of your client base, we've developed the Magic Quadrant.

It's a simple way to take that exported list of client data, combine it with your hands-on knowledge of clients, and start sorting the valuable clients from the troublesome ones.

LOW EFFORT

HIGH EFFORT

HIGH RETURN

1. High return & Low effort

Gold-dust clients

- High profit on fees
- Stick to their service level agreements
- Have processes in place and running
- like clockwork
- Highly profitable
- Low time maintenance
- Enjoyable to work with
- Likely to refer similar clients

2. High return & High effort

High maintenance – consider whether they can become a gold-dust client

- High profit on fees
- Don't always stick to agreements
- Need a lot of chasing for documents/invoices
- Time intensive
- Sometimes disagree with pricing
- Have a lot of last minute jobs that need to be done NOW
- Lie outside your firm's area of expertise/niche
- Accounts disordered

LOW RETURN

3. Low effort & Low return

Bread and butter clients. Keep these ticking over – and consider where you add value

- Low profit on fees
- Stick to their service level agreements
- Have processes running efficiently
- Not very profitable, but not too much
- trouble either.
- Enjoyable to work with
- Stable

4. High effort & Low return

Get rid of these RIGHT NOW – we mean it!

- Low profit on fees
- Don't stick to agreements
- Need a lot of chasing for documents
- Time intensive
- Unpleasant to work with
- Often disagrees with pricing
- Lots of last minute jobs
- Accounts in disorder

What kind of clients do you have?

Where do your current clients sit in the Magic Quadrant? Go through your customer base and decide where to plot each client.

1. GOLD DUST CLIENTS

These are your dream clients – hold onto them and seek out more! Set up a referral scheme to encourage these clients to refer businesses they know: they're likely to be equally low effort and high value. Your aim is to service as many of these clients as possible and to have a proactive client strategy for increasing the value of your client base.

- Keep these clients happy.
- Find more clients in the same mould.
- Pinpoint what works for these clients and implement it for others.

2. HIGH MAINTENANCE EARNERS

Think carefully about these clients. It's easy to assume that clients with the highest fees are the most valuable – but that's not always the case. If they're taking away time from servicing more 'gold-dust clients', they're actually holding your profitability back, rather than boosting it. Your goal is to move these clients into the gold dust category. If they're a high-value client, consider if they can be made lower effort too.

- Try implementing simpler processes that improve efficiency.
- Charge penalties for not meeting service level agreements.
- Increase the expertise in the team to make the processes smoother.
- Look into automating more of the work for this client.
- Make small investments in time and money to improve process and revenue.

3. LOW EFFORT, LOW RETURN

Keep these clients ticking over. They're not high revenue but they're also low effort. Their streamlined processes means that there's little input required from you. You aim is to move these clients to the gold-dust list and to increase the return they bring in.

- Think about additional ways to add value for them as a business.
- Upsell your services so that they're both low effort and high value.
- Work on the relationship to become their trusted advisor.

4. HIGH EFFORT, LOW RETURN

Fire these clients immediately – we really do mean that. These clients are eating into your time for little return, so they're only going to cause you trouble. As per the Pareto Principle, you're putting in plenty of effort but getting very little reward.

- Ditch the clients that are zapping your energy and delivering no value in return.
- Work out the time and resources you would free up without them.
- Use the time you get back to service other clients that are high value and high return.

ReceiptBank™

Receipt Bank is the leading bookkeeping productivity tool, used by over 4000 accountants and bookkeepers worldwide.

Receipt Bank extracts the key information from your clients' bills, receipts and invoices, removing the need for manual data entry. Receipt Bank then allows you to publish this data directly to your chosen accounting software.

Our Account Managers help you grow your business in a partnership that goes beyond just software to advice on marketing, to process mapping, pricing and more.

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- Line item extraction
- Accuracy 98%+
- Phone support + 24/7 email support
- Boost functionality
- While You Were Away workload manager
- Xero match
- Expense Reports
- Co-branded 5-Star Client mobile app
- World-class Integration with Xero, QuickBooks Online, Sage One, Twinfield, Kashflow, FreeAgent
- Built-in foreign currency support
- Project and Class management
- Dedicated training platform and education resources
- 5 Star reviews on Xero Community & QuickBoooks Apps.com
- A Personal Cloud Consultant to help you grow your business

Talk to a member of our team to find out how Receipt Bank can help you set up a more profitable model for your practice.

REQUEST A CALL BACK

Email us at **partners@receipt-bank.com**