The quicker the better

Reporting on a recent survey, John Haylock reinforces the need for throughput to make the management of your practice more efficient and your clients happier

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IN a series of *Journal* articles over the past 12 months, I have argued that throughput should be the key driver in the management of accountancy firms. This is because when a firm concentrates on throughput, it is making two key strategic changes in practice management:

1. Focusing on addressing slow turnaround, which is a significant frustration for clients
2. A business model that rewards efficiency.

Throughput-based management has been in place at Stratagem for the past four years and has resulted in significant improvements in practice performance, such as happier clients, increased profits, reduced work in progress and the elimination of write-offs.

Evidence has now also been gathered from other firms about the benefits of throughput-based management. In October, along with Grant McQuoid, I ran a CPD seminar on throughput-based management in association with the Institute in 12 centres around New Zealand. During that seminar series, we carried out a practice benchmarking survey, which included turnaround time as a key performance indicator.

To the best of our knowledge, this is the first time a practice benchmarking survey has included turnaround time. The results of this survey were dramatic and reinforced our message that throughput should be the most important driver of practice success. That's because those firms that provided quick turnaround time on annual accounts (providing the best service to their clients) also had the best overall financial performance.

Let's take a look at the survey and its results in more detail.

2003 Accountants Toolbox benchmarking survey

Forty firms provided information on the full range of indicators required, including their turnaround time on annual accounts. As well as assessing the impact of turnaround time, we also assessed three other traditional indicators of practice performance – leverage, size of firm and percentage of chargeable hours.

To do this, we divided our sample of 40 firms in four different ways – the 20 quickest and 20 slowest turnaround firms; the 20 largest and 20 smallest firms; the 20 firms with high leverage and 20 firms with low leverage; and the 20 firms with highest percentage of chargeable hours and the 20 firms with the lowest percentage of chargeable hours. We found that the median net profit per director was higher in:

- High-leverage firms than in low-leverage firms
- Large firms than in small firms
- Firms with a high percentage of chargeable hours than in those with a lower percentage of chargeable hours
- Firms with quick turnaround than in firms with slow turnaround.

If you make the quick turnaround of jobs a priority in your practice, then you have a reason to do jobs in less time

There is nothing surprising in these results. But what was very interesting was that the highest net profit of these four groups of firms was in the 20 quick-turnaround firms and that turnaround also had a positive correlation with other indicators of financial performance (see *Table 1*). As you can see, the 20 quick-turnaround firms had the best overall results. As well as having the quickest turnaround (which is something clients rate as being very important), these firms also had the:

- Highest net profit per director
- Lowest write-offs per director
- Lowest workflow lock-up per director.

In other words, the firms with quick turnaround achieved the best overall financial results for their directors.

Table 1: Key data for high-profit firms

	Median net profit per director ($)	Median write-offs per director ($)	Median year-end lock-up per director ($)	Median chargeable hours (%)	Median turnaround – date started to date completed
Large firms	180,000–183,333	50,000–53,869	156,164–169,863	65	35–40 days
High percentage of chargeable hours	180,000–195,078	44,000–45,000	164,384–170,000	73–75	35 days
High leverage	190,000–195,078	57,367–58,883	170,000–181,614	65.3–66	30–35 days
Quick turnaround	200,000–200,500	36,000–39,000	120,000–134,500	66.3–66	23–28 days

These quick-turnaround firms also achieved these results with an average percentage of chargeable hours. This indicates that these firms did not achieve their excellent results from working harder. Rather, it suggests they were achieved from better processes and management.

As I suggested earlier, throughput-based management rewards efficiency. That's because if you make the quick turnaround of jobs a priority in your practice, then you have a reason to do jobs in less time. This reduces write-offs and increases profits. You also have a reason to have fewer jobs on the go at once, which reduces work in progress. But most important of all, you're addressing the problem of slow turnaround – one of the key frustrations that clients have with their accountant. ■

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