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Jim Stern
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Tax Firm Startups—The Seven Biggest Mistakes

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According to Forbes.com, a tax & accounting firm is one of the most profitable businesses to start. The primary reasons are that every business needs the expertise of a tax professional, overhead expenses are low, and repeat business from existing clients lowers marketing costs.

To improve your odds of successfully starting up a new practice from scratch, the following are the top seven mistakes new tax & accounting firms make.

1. Undercapitalized—Just like any new business, many tax firm start-ups are undercapitalized and don't realize the lag-time from the time a new client is acquired to when cash comes in the door. To improve your odds of success, you should have personal savings to cover one year's worth of living expenses and assume the business generates very little in the first year to your family living obligations.

Insufficient capitalization leads directly to the second biggest mistake many new tax/accounting firms make...underestimating the need for marketing.

2. Clueless about Marketing—Many new financial firms rarely budget funds for marketing and lead generation. It is common to think that joining the Chamber of Commerce and friends and family will generate enough leads for new business. This is simply not true, and what ends up happening is that the firm ramps up slower than expected in the first six months, creating cash flow issues into year two.

To avoid this mistake, all new tax & accounting firms should attend a practice marketing seminar specifically tailored for their business. This fosters a solid understanding of how to use marketing for lead generation amongst small business owners. The California Society of Enrolled Agents offers specific seminars, the Tax Practice Management Institute. Watch for an announcement of 2010 events.

3. Selling on the Cheap—Many Enrolled agents just starting out are willing to accept fees that are too low at the onset...assuming that rock-bottom prices will make the medicine easier to swallow. Unfortunately, it is challenging to move clients obtained in the first six months to reasonable fee levels down the road. As a result, firms get stuck with the perception that their fees are below market norms, and Enrolled Agents need to always remember that in good times or bad, they need to value their services and worth as much as they expect their clients to! Keep in mind, when you offer below-market rates to some clients, referrals that come from these clients will expect below-market rates as well.

Learning how to price tax services and clearly justify the value to small business owners is key to avoiding this mistake.

4. Poor Cash Collection Process—Occasionally, you'll discover that some of your clients wish to haggle over money due, or will not pay as promptly as you'd like. Successful service businesses transition cash collection into a process that ensures prompt payment. In fact, cash collection needs to be a core competency to avoid cash flow crunches.

5. Failure to Differentiate Your Services—Many new tax & accounting firms start off without a plan to build a "better" mousetrap in order to yield higher profit margins.

To differentiate services, startups must have a plan in place to develop a practice that yields above average fees. This will lead to acquiring higher-end clients and, eventually, superior staff.

6. Overlooking Your Loved Ones—Startups in any industry demand longer than normal work weeks, create financial strains, and ignite in many what is known as "survival mode." The commitment required to start a firm extends beyond "me" and must be viewed as "we." Gain support and buy-in from family before hanging out the shingle!

7. Lack of Advice from a Mentor—Gain insight into the development process from someone who has developed a successful tax practice. People like to talk about their business, but also don't be afraid to ask questions. The greatest value of your CSEA membership is that there are plenty of other EAs to canvass. Learn how to do it smarter and avoid obvious pitfalls.

In the end, everyone makes mistakes along the road of entrepreneurship. The goal is to avoid the obvious pitfalls and learn from mistakes so you don't repeat them.

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