

THE PRODUCTIVITY MANIFESTO



ALEXIS PRENN, CO-FOUNDER OF RECEIPT BANK, SHARES HIS INSIGHTS INTO BOOSTING PRODUCTIVITY

Bookkeeping should be a very profitable business - and here's how.

Unfortunately for many people it is not. Due to the difficulty differentiating between good bookkeeping (worth paying more for) and bad bookkeeping (worthless); the price/cost is often the basis which people use to judge bookkeeping services.

Traditional bookkeeping involves a large amount of manual data entry and the price is determined by the amount of staff time to complete the task. Competitive pricing can only be achieved at the expense of profit margin by simply charging less, because it takes everybody roughly the same time. The combination of this labour-intensive, antiquated process and the emphasis on price heavily impacts the profitability of bookkeeping services.

Receipt Bank offers accounting and bookkeeping firms the tools to change this and make bookkeeping very profitable. Our tools radically change what one bookkeeper can achieve in a day, a week... a month. Tools that boost productivity by 3, 4 or even 5 times by making the bookkeeping process effortless and in many cases intuitive and automated. If a bookkeeper is typically looking after 10-15 clients, using the tools that we have designed they can increase their capacity to 50 clients.

This scalability allows you to move away from the historical timesheet based pricing and adopt a value pricing structure.

Here is an outline of how I would implement Receipt Bank to achieve enhanced productivity in a practice of my own. I would stress that in order to make the most of the project, it is essential to understand the key ratios and metrics to monitor and track efficiency and productivity from the outset. Increased profit is the reward and consequence of becoming more internally efficient.

KEY METRICS:

-  BOOKKEEPER TO CLIENT RATIO
-  MONTHLY RECURRING REVENUE (MRR)
-  AVERAGE REVENUE / BOOKKEEPER
-  AVERAGE PRODUCTION COST / CLIENT

BEFORE WE GET STARTED

- 1** Make sure that you have started to bill and collect your fees on a recurring monthly basis – this ensures that your lower bookkeeping delivery costs and extra margins are going into your pocket.
- 2** Make sure that you are tracking the monthly bookkeeping revenue in your accounts – we need to know the total income per month.
- 3** Make sure you know how many clients you are providing monthly bookkeeping services to – often harder than it sounds – hey presto, now we can calculate the average revenue per client per month.
- 4** Next, how many people are involved in the bookkeeping for these clients – full or part-time. Add up the part-time bits so that you have the total number of “whole” people (FTE - full-time equivalents) – while we are doing this, total their monthly costs (inc tax etc).

WE NOW KNOW 3 USEFUL THINGS

- The total number of clients per bookkeeper (or FTE)
- The average revenue per bookkeeper – by dividing the total revenue by the number of bookkeepers
- The average production cost per client – by dividing the total staff cost by the number of clients. Useful because as a rule of thumb our average £ revenue per client should be 3 times our direct cost.

NOW WE ARE READY TO GET GOING

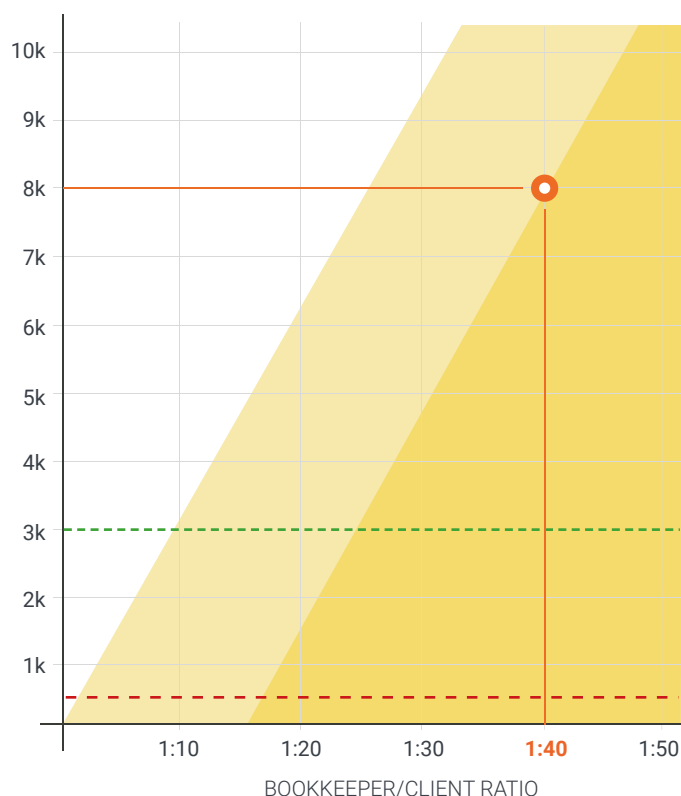
The key metric of productivity is the bookkeeper to clients ratio.

If we double the bookkeeper client ratio from 1:15 to 1:30, we get twice the revenue on the same cost base. Assuming an average fee of £300 per month for client bookkeeping with the old ratio of 1:15, we make £4500 per bookkeeper. Now, with a ratio of 1:30, we are generating £9000 – with no extra effort.

Now if we drill down further and assume a bookkeeper cost of £4000 per month, we can increase the profit from £500 to £4500 per month.

Good, but not good enough... as a rule of thumb the ratio should be 3 times your direct bookkeeper costs (1/3 for the direct cost, 1/3 for the overheads and 1/3 for the profit) - so the goal is £12,000 per bookkeeper. In order to achieve this we need a ratio of 1:40.

BOOKKEEPER/CLIENT RATIO	1:15	1:30	1:40
MONTHLY FEE	300	300	300
BOOKKEEPER COST	4 000	4 000	4 000
REVENUE	4 500	9 000	12 000
PROFIT	500	4 500	8 000



KEY

- Monthly fee ---
- Bookkeeper cost ---
- Revenue ▲
- Profit ▲

SO HOW DO WE ACHIEVE THIS?

- 1** Consider incentivising each bookkeeper based on the revenue of the pool of clients that they manage - essentially sharing the profitability.
- 2** Train the bookkeepers in the use of Receipt Bank and a cloud accounting product.
- 3** Train one bookkeeper to be the "ninja" – ensure the ninja is carrying the most clients to benchmark what can be done.
- 4** Transfer clients to the ninja to max their load and demonstrate what can be achieved. If it can be done once, it can be done again and again. It is much more difficult to train 4 people to excellence than one.

I would regularly transfer clients to the ninja to keep pushing the "possible" - otherwise inertia will take over. Keep transferring till the wheels start to squeak.

Keep pushing the client number. Keep looking for process improvements. Then keep pushing the client number again.
- 5** Ensure that the clients are submitting their invoices and receipts in a complete and timely fashion. To encourage them, I would ensure that they receive benefits – real time information, modestly reduced costs too (this will encourage client referrals). As an alternative, I would consider a strategy that penalised those clients that didn't play the game.

Points to consider:

I wouldn't worry about timesheets - the ratios will be quicker and easier to manage than timesheets.

I also wouldn't worry too much about time consuming clients - we're more interested at this stage in the average. That's mostly a pricing issue.

The cost per client ratio is a magic number. Multiply it by 3 to get a sensible base price to charge new clients.

The goal is to make the operation so efficient that clients who "do their own bookkeeping" will find your cost and service irresistible - another source of new revenues.

So now we are more efficient what are we going to do with it?

The new capacity we have created, the new profit we are generating, the new free time to invest in other areas...

I would urge you to think about how to use these resources to improve the client experience. We are always going to be the most price competitive but the way forward is to use the extra time/money/margin to shape a client experience that is distinctive and simply better than the alternative.

One last thing, productivity never ends - there are always areas for analysis and improvement. If we can get to 1:50 we can get to 1:100. It just means that we spend 1.5 hours a month per client - instead of 3 hours.



About the author

ALEXIS PRENN

Alexis founded Receipt Bank with Michael Wood in London 5 years ago. The company has grown to have offices in London, Sydney and Washington DC. For many thousand of bookkeepers and accountants worldwide seeking to improve their productivity, profitability and client experience Receipt Bank has become an essential partner in helping them to achieve this.

Alexis started his career selling rock guitar loudspeakers to music shops around North America. 11 years ago he was a founding partner in Triple Point LLP which grew rapidly to become one of the largest specialist investment business in London. He is a Director Triple Point TP10 VCT plc. Previously he was a lead investor into Sinclair Pharmaceuticals which subsequently listed on the London Stock Exchange.

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