

Special Report

What should CAS mean to you?



Picking your flavor of CAS

Every firm's model looks different — but they're all worth pursuing

Special Report: What should CAS mean to you

What is CAS, anyway?

The answer for many accounting firms may well be:
Whatever you make of it

By Antoinette Alexander

The growth of client accounting/advisory services remains on the upswing as firms look to better meet the demand for more forward-looking services. Is your firm among them — and, if so, what should CAS mean to you? That is the question today's firms should consider as they look to increase their investments in CAS and fine-tune their business strategies to remain competitive.

In recent years, CAS has strengthened its position as a high-growth area for the accounting profession, and the opportunities for continued growth remain strong. For many firms it is no longer a question of whether they should launch a CAS practice, but rather of how they will define and structure the practice to best serve their clients and help ensure it is a differentiator.

According to the most recent CPA.com and AICPA PCPS CAS Benchmark Survey, more firms of all sizes are making a commitment to offer CAS. In fact, since 2018, there has been a double-digit trend in growth for CAS practices, with firms seeing a median growth rate of 16% in 2022.

Furthermore, the overall CAS net client fees and CAS net client fees per professional maintained their strong growth, according to the survey. For all respondents, the median rose to \$121,454 per professional, up 8% compared with 2020. The jump was even more significant among top-performing firms, where median NCFPP

climbed 25% to \$231,217.

Looking ahead, the opportunities are expected to stay strong. According to the survey, 72% of all the CAS practices that responded and 81% of top performers said that they believe their pipelines indicate strong opportunities for growth.

A key factor for many firms is determining what CAS means for them.

"I think it is mission-critical for firms to establish a consistent definition of what CAS is within their firms and that ties to the importance of the internal awareness and marketing," said Kalil Merhib, CPA.com's vice president of growth and professional services. "When firms are thinking about how they differentiate that, the CAS community is very open and willing to share best practices among each other, and that's because there's a lot of opportunity to differentiate between firms. They don't feel like those best practices are giving away their secret sauce."

He added, "Where firms can start to make this bespoke for them is thinking about what industry expertise and specialty advisory for a specific industry they can deliver, and differentiate that way. Firms are thinking more about the service delivery model and what is the experience of doing business with their firm. ... All of those things need to go in when firms start thinking about what CAS is going to be for them."

Defining CAS

For starters, firms need to think about

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CPA.com



Kalil Merhib | Vice president of growth and professional services

How do you define CAS?

We define CAS as Client Advisory Services. A CAS practice offers a mix of services spanning a spectrum of accounting and financial business needs but does so with the goal of delivering deeper value to clients through a holistic approach. We support firms in their CAS journey with continuous business planning and advisory discussions supported by financial and nonfinancial data delivered through industry-specific KPIs.

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how they will define CAS. That definition, and even the practice name, can still vary within the profession. For instance, apart from the two variations of CAS (accounting or advisory), some firms may call it CAAS (client accounting & advisory services), OAS (outsourced accounting services), or give it a branded practice name.

"There's a lot of confusion around the acronym C-A-S and what it means. ... Years ago, when we talked about CAS we talked about client accounting services, which was essentially glorified bookkeeping. And that was the definition, as I recall it, for CAS for quite some time. I think in more recent years, the term has evolved to be more client advisory services. I think there's a difference between client accounting services and client advisory services," said Darren Root, chief strategist at Right Networks, who considers client accounting services to be "more compliance in nature" compared with advisory.

This point was noted in the recent CAS Benchmark Survey, which took a strong stand on the definition: "An intentional choice has been made to use Client Advisory Services since early 2020. 'Client Advisory Services (CAS)' is forward-looking and best reflects our mission and belief in empowering accounting professionals to enhance their CAS offerings and provide more value for their clients."

According to the findings, "client accounting services" continues to be widely used by nearly half (43%) of firms surveyed. However, CAAS seems to be gaining traction, indicating a clearer understanding of the growth opportunities within this practice area.

Hitendra Patil, CAS/CAAS consultant and author, said that he often hears these kinds of definitional questions. "Most firms offer your typical, traditional services — bookkeeping,

accounting, tax, payroll, and then bill payments, cash flow management, advisory and CFO advisory. There are plenty of these service labels that people can have as part of their entire service offerings. ... So what if what we've been doing isn't CAS? What is CAS?" he said. "And the second key question that I generally hear quite often is: 'Everybody wants to get into client advisory services, but what exactly is advisory? What advice should I give or what advice can I give to clients that they will pay for?' Those things are not easy to generalize because every firm can be different. The products that they use for producing the work will be different, the experiences could be different, the niches of clients that they serve could be different."

Continued Patil, "So [it is] based on each firm's own area of expertise, competencies and experiences. There are actually advantages for the firms to follow their own take on CAS or CAAS, because you will want to fully leverage your experience to build your practice."

And it should be noted that, to usher in a new era in advisory services and help firms realize the full potential, CPA.com has introduced the CAS 2.0 strategy for business transformation and change management. The aim is to provide firms with a more holistic vision and approach to drive firmwide adoption of CAS.

Selecting your service mix

When firms are determining the mix of services to offer in their CAS practice, there are several variables to consider. This will help firms develop a menu of services that isn't based on external factors, like what a competing firm is offering, but instead focuses on what best aligns with their firm and best meets the needs of their clients.

That being said, the CAS Benchmark Survey does outline a list of CAS

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Ryan McGurk | Senior VP of sales

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offerings that are most commonly provided by firms:

- 1099 creation and filing (91%);
- Financial statement preparation (89%);
- CFO/controller advisory services (88%);
- Accounts payable (86%);
- Sales tax returns (85%);
- Consulting (financial planning and modeling) (83%); and,
- Forecasting/budgeting (83%).

But, again, it is critical to factor in your firm's areas of expertise and the needs of your clients when determining your firm's mix of CAS services.

"Firms should be looking at their client base," Merhib advised. "Where do they have concentrations of clients in certain industries that they are comfortable in serving? And what level of sophistication do those clients have? And also then cross-referencing that with what skill sets and expertise they have internally. Do they have people that were previously in business and industry in some of those particular verticals? And then they start thinking about what are some of the ways that we can serve these clients with the expertise we have and feel very confident introducing a new service to them."

Katherine Watts, a partner in business advisory, accounting and physician services for Top 100 Firm Horne in Jackson, Tennessee, agreed and said that the firm's CAS practice — which it refers to as managed accounting services — has evolved over many years, and today's service offerings are driven in large part by client needs.

"You can't be all things to all people. I think defining what you want your niche to be is important; otherwise, you could spread yourself too thin," Watts said.

The practice largely focuses on privately held companies and organiza-

tions in health care, franchising, and restaurants. Services vary depending on the industry and client needs. For example, managed accounting services for construction companies may include payroll, cash flow management, bill pay, and outsourced CFO services. Meanwhile, the Horne health care team may provide the following managed accounting services for health care practices: practice management consulting, managed accounting services, outsourced CFO and controller services, revenue cycle management, tax compliance and consulting, wealth planning, and human resources services.

As noted, Watts said that the service offerings have evolved over time and are a reflection of client needs. "Like on the physician practice side [for example], we were heavily involved in developing compensation formulas: How do owners divvy up the pie and how do they do that legally with health care regulatory rules and regulations? But it got into where the clients were wanting us to help them budget, forecast, look at their costs, look at their overhead. How does that compare to the industry? Any major decision — do I need to expand? Do I need to open another location? What would be the cost? Any type of financing for equipment or growth, dealing with the banks, helping build the case. ... So it has evolved and that is now our [menu] of services," Watts said.

Mike Triantos, head of partnerships at Jirav, a provider of financial planning and analysis solutions, echoed the sentiment and noted that a misstep that some firms make is launching their services without first understanding their ideal customer profile.

"They really need to think through their CAS strategy, first and foremost. ... As part of that strategy, what is their go-to-market strategy and their right

SPOTLIGHT ON

Right Networks



Darren Root | Chief strategist

How do you define CAS?

Historically, the broad accounting profession has defined CAS as Client Accounting Services. Over time, others have evolved the term to designate Client Advisory Services. Modern firm leaders understand the difference and the value each offers their clients, combining the two to offer the acronym CAAS. Adding advisory to client accounting services offers a distinct competitive advantage. It's time to modernize and lead with CAAS.

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target market profile for their clients? So I think really understanding that component first and then, based on that, understanding the needs of those specific types of clients,” said Triantos. “By understanding those types of customers and the needs and pain points that they have, they can start putting together the CAS services that are going to address those needs for that particular market segment.”

When firms are determining their mix of services, it is also important to focus on defining repeatable services rather than chasing “one-off opportunities,” advised Merhib. Establishing that foundation at the onset will pay dividends as the CAS practice begins to scale and introduce new services going forward.

Bundling services

Once firms have defined CAS and identified the service mix that will best meet the needs of their clients, they should consider bundling those services and, of course, pricing them appropriately. This means bidding adieu to the traditional hourly billing model.

Bundling or packaging services is among the best practices for enhancing a CAS practice, as it provides a number of benefits for both the firm and the clients. For example, bundling and charging a fixed monthly fee provides clients with choices and greater clarity, and enables them to budget accordingly, which they appreciate. It also enables firms to establish a more consistent, year-round revenue stream and avoid scope creep.

“One of the first places I think a firm should start is how many service levels are we going to want to offer? Are we going to want to offer the Silver, Gold, Platinum? Are we going to say we have a Good, Better, Best? Are we going to have just a high and a low type of service? Because once you

know your clients and their sophistication, you can start to home in on what that might be,” said Merhib. “But then within each of those levels ... you need to start thinking about those industries. What are their core business cycles that they need to execute on day in and day out? And for that industry, around those cycles, what are the activities you should be providing at those different service levels and what are the deliverables that you should be providing those clients? And then what technology and staff level are they

‘What is their go-to-market strategy and their right target market profile for their clients?’

going to have access to? So, this is the essence of productizing a service.”

A growing number of firms are adopting a three-tiered pricing approach (i.e., Bronze, Silver and Gold levels), with the level and depth of services increasing as the package level increases. To best meet a specific client’s needs and wants, firms will often customize a service package and, of course, adjust the package price accordingly. And any work that is considered to be out of scope is charged separately.

Patil said the criteria for creating the bundles is often based on several factors, including:

- The number of individual services in each level of those bundles;
- The volume of business transactions of the clients; and,
- The need for specialist knowledge that can benefit the client in that particular level of service.

“Even though you are trying to

bundle your services, you always look at it from the client’s point of view. This client comes in or the prospect comes in — how do they decide, ‘Which one should I buy? Which bundle is good for me?’” Patil said.

Jirav’s Triantos said when he thinks of how to approach the bundling of services, he references CPA.com’s new CAS 2.0 strategy. “The old [CAS model] is now called ‘financial CAS’ and then CAS 2.0 is ‘business insights CAS.’ Typically, what I’ll see when they start bundling these services is that they typically go to market with a package that addresses a core set of transactional advisory services under CAS 1.0 or financial CAS. Those services may be around, of course, core accounting and bookkeeping; they may be even around payroll, 1099 creation, accounts payable, and sales tax,” he explained. “Then what I typically see right now is that when they start thinking about maybe going to market with three bundles, they’ll typically, in that second or third bundle, start putting some of those business insights or CAS 2.0 services in those bundles. That would typically be CFO or controller advisory services where they are doing consulting or forecasting and budgeting around those types of bundles.”

Triantos stressed that it is important for firms to consider the cost of goods sold and revenue surrounding the bundled services to better understand their gross profit and gross profit margin. In other words, what it will cost them to deliver (i.e., labor, software, etc.) those services bundled into the packages.

“Sometimes when I’m engaging with firms, they haven’t really thought that through. And so I’m advising firms, almost every week, on structuring these bundles and making sure they have a full picture of their revenue

and their COGS, gross profit, and gross margin percentage,” Triantos said.

Value pricing

It is also important to ensure that the firm’s fees reflect the value of its CAS services, even if that means having to raise prices. How can a firm tell if its CAS fees may be too low? As noted in the CAS Benchmark Survey, there are a few indicators:

- Firms are almost certainly underpricing if they are using existing hourly rates as the basis for subscription or value-based fees.
- Prices are likely too low if they are closing new clients at a high rate.

It may take time to determine the firm’s ideal pricing structure; however, it is an important step to take if the CAS practice is to thrive.

Firms that are hesitant to raise fees should keep in mind that when clients understand the true value of CAS, they are more likely to pay a premium. According to the CAS Benchmark Survey, 64% of prospects are price-sensitive. However, 69% of respondents said that clients don’t understand the value of CAS or confuse it with lower-level bookkeeping. Therefore, it is critical that CAS practice leaders discuss the value of their firm’s services.

“When it comes to value billing, we think it has all the opportunity in the world to go in that direction,” said Tommye Barie, executive vice president of leadership development at the management consulting firm Succession Institute. “True value billing, an example of that would be a percentage of gross revenues, or a percentage of some sort of savings within a particular area of the income statement, so things of that nature. It wouldn’t surprise us at all for it to continue to move in that direction.”

Said Succession Institute CEO Bill Reeb, “I think that most people still

look at it on a time-and-materials basis, at least to come up with the original price, and then they start adjusting from there. But, once again, it is the project-based mentality that gets in our way.”

Added Reeb, “When you’re dealing with CAS, it is every month all the time. And the more holistic it is, the lower the margin is going to be, but it is margin we make every single day across that service.”

Sharing Barie’s optimism for value billing, Reeb said, “Value billing is going to be where we think it is going to be. And while people use time and materials to come up with the original price,

‘One of the first places I think a firm should start is how many service levels are we going to offer?’

we don’t recommend anybody to do that. We recommend that you have a monthly fee and that monthly fee then gets bundled. Because we think you don’t offer CAS without offering the monthly advice.”

Marketing your services

Providing CAS services is a great way to further deepen client relationships, but how do you know which clients are ideal? And how do you reach them?

It likely comes as no surprise to hear that extending services to an existing client is a much easier and quicker way to generate leads compared with attracting a new client. In fact, according to the CAS Benchmark Survey, the top five sources for CAS leads among top-performing firms are:

1. Existing tax clients (79%);
2. External referrals (60%);

3. Converting traditional bookkeeping or accounting clients (36%);

4. Existing clients (those who previously received services other than bookkeeping, accounting, tax or audit) (36%); and,

5. The firm’s website (24%).

Furthermore, the survey found that many firms (31% of top performers and 43% of all respondents) have invested in creating a marketing plan.

Firms that have a specialty or that cater to specific niches often find that is an effective way to generate referrals because businesses within the same industries talk. In other words, when firms have a niche practice, they can stake their claim as a subject-matter expert in that industry or area of focus.

“As you develop that industry expertise, the word of mouth accelerates. ... If you are in an industry for a long period of time, you get to be known as a thought leader, even if you’re able to speak [at events] or write articles, and that kind of thing, it can bring attention to your expertise so you can get some leads that way,” said Watts. “The website, in today’s digital world, drives some leads, but we definitely get a lot of referrals from clients and referrals from other sources as well.”

Testimonials, case studies, referrals and references are, of course, helpful in driving more business; however, it is also important to identify clients who are interested in improving their business, will listen with an open ear, and will work with you as a business partner.

Said Kane Polakoff, who works out of Detroit as a principal of managed services and outsourcing solutions for CohnReznick, “You want a client that wants to become better. They are doing it for the right reasons. They want to get better. They want to improve. They care about their financial information.” **AT**