

The **E-Myth Accountant**

Excerpts from the book by

Michael Gerber & M. Darren Root

a resource for you from

rootworks 

The **E** Myth
Accountant

The **E** Myth
Accountant

*Why Most Accounting
Practices Don't Work
and What to Do About It*

Michael E. Gerber
M. Darren Root



WILEY

John Wiley & Sons, Inc.

Copyright © 2011 Michael Gerber. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products, visit our web site at www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

ISBN 978-0-470-50366-9 (cloth); ISBN 978-1-118-00781-5 (ebk);

ISBN 978-1-118-00782-2 (ebk); ISBN 978-1-118-00783-9 (ebk)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

A NOTE FROM M. DARREN ROOT

As a practicing certified public accountant (CPA) for more than 25 years, I have an intimate knowledge of the obstacles accounting professionals face every day. In the absence of proper principles and planning, changing mandates, tax laws, technology, staffing, and client retention (and the list goes on) can add up to chaos and disaster. I've experienced firsthand the pain such chaos evokes. However, I've also experienced the feeling of tremendous relief brought about by implementing the E-Myth message in my firm. Having made the journey and done the work myself, I can say without pause that reading this book and adopting its message will transform the way you run your firm and, ultimately, your life.

It's been more than a decade since I adopted the principles set forth in Michael Gerber's *The E-Myth: Why Most Small Businesses Don't Work and What to Do About It*, but I can still remember the minute details of my journey from chaos to clarity. The moment of my great epiphany is what is most ingrained in my memory.

I had been in business for over 10 years. My firm was growing rapidly in both client base and staff. I found myself in a place all

too familiar to many accounting professionals today: I was so busy working *in* my firm, that I had no time to work *on* it. I struggled to keep my head above water—taking on more and more clients, while giving up no responsibilities. And where did that get me? Enslaved to my own firm and estranged from my family—the exact opposite of what I had set out to create. I knew then that I had to make some significant changes.

I started my journey in the business section of my local bookstore. I picked up a copy of *The E-Myth* and was immediately engaged. I identified with the book's main "character," having experienced the same growing pains and feelings of insecurity related to implementing big changes. Deep into the book came the epiphany—the moment I realized that I had the power to mold the business I had originally set out to create—a well-structured firm that would yield significant revenue, while affording me true life–work balance.

Today, I still run my firm on the core principles described in *The E-Myth*. The E-Myth philosophy enabled me to recalibrate my practice, successfully transitioning from the traditional and antiquated way of doing business into what I've termed a Next Generation Accounting FirmTM. Next-generation firms have opened their minds to a new way of doing business—that is, they've adopted appropriate technologies and practices to support highly efficient processes that yield higher profits and demand far less time investment. By applying the same principles, I've been able to build a nationally recognized organization that has educated hundreds of accountants about how to leverage their technical acumen and leadership skills to build highly efficient, money-making practices.

Perhaps the most wonderful aspect of the E-Myth perspective is the ability to apply it universally. One definitive fact about the accounting profession that I've learned over the years is that, at the core, all firms are exactly alike. From an operational standpoint, no matter the services offered or the size of the entity, any

firm can apply E-Myth principles and achieve the same results that I have. And I'm not simply speculating; I've witnessed the transformation of many firms.

I'm no idealist to believe that most accounting firms will accept this notion without question and suspicion. In fact, I've heard just about every excuse explaining why these principles are not a good fit. That's the old-school accounting profession mindset. To truly benefit from this book, professionals have to reboot their thinking . . . be open to the idea of building a business and *not* just having a job. Old-school thinking will only keep accountants in the daily grind, or as Michael Gerber says, "doing it, doing it, doing it."

The fact is that we are part of a noble, honest, and well-respected profession. And I would bet that most of us started out with great passion and a dream to run our own successful firms. I would also bet that, for most, the reality is long hours, a fair amount of stress, and less-than-attractive profits. It's time to change that.

Many years ago I was fortunate enough to have my epiphany, which came from reading *The E-Myth*. Today, with many years of experience as both an accounting technician and transformational business leader, I now have the honor of coauthoring a book that can help you transform your firm into a highly efficient, profitable organization. Start by clearing your head of outdated concepts and open yourself up to a new way of operating your practice. I can only hope that this book will have the significant impact on you that the original *The E-Myth* had on me so many years ago.

—M. Darren Root, CPA.CITP
CEO RootWorks, LLC
The American Academy of
Accounting and Tax Professionals
(a division of RootWorks, LLC)

C H A P T E R

2

This CPA's Personal Journey

M. Darren Root

*If the ladder is not leaning against the right wall, every step we take
just gets us to the wrong place faster.*

—Steven R. Covey

When I graduated from college, I had my entire career ahead of me. Everything was my choice—where I headed and what goals I would accomplish. I was optimistic and hopeful that “the end” I had envisioned would eventually become a reality.

And what was that “end”? For me, it was an established, profitable accounting firm, with me at the helm. Operating

10 The E-Myth Accountant

my own firm would also offer other benefits, such as a flexible schedule and a healthy life–work balance. After all, how hard could that be to achieve?

Immediately after college, I joined a Big Four firm and gained the corporate experience I desired. From there, I went to work with my father, learning the ins and outs of the accounting profession through the small-firm lens. After a few years at the family business, I launched my own firm, convinced that I had reached the level of master technician and that my technical skill alone would be enough to run a successful firm.

Like most of my professional counterparts, I assumed that I was exempt from the trials of running a practice and that the learn-as-you-go method would suffice. I also labored under the misconception that technical skill alone would secure my success as a business owner. After a very short time, reality set in and I was faced with myriad issues that ranged from staffing to inadequate processes. And the more issues that emerged, the less prepared I was to deal with them. Soon, my time was consumed by managing problems and process defects, as well as slowing the spinning of my head. In the words of Michael Gerber, I was “. . . overcome by an entrepreneurial seizure.”

The biggest heartache for me was that, although I had set out to own a business, all I'd accomplished was merely creating a job. I spent all my time working in my firm just to keep my head above water. I was so busy managing problems and completing client work that I was unable to emerge as a true leader. My dream of working for myself had translated into “working for a lunatic,” as Michael Gerber says. *I* was my single biggest deterrent to making the transition from technician to savvy business leader. And let me tell you, they don't teach you how to do make that transition in school.

The struggles I experienced are common and, unfortunately, are taking a toll on the profession at large. Although no definitive statistics are available, research has shown that accountants are

predisposed to depression. Anecdotal evidence indicates that accounting professionals are often under a lot of pressure and work long hours to succeed. These elements contribute to a higher risk of depression.

Compound these elements with the pressures of an annual “busy season,” and symptoms of depression can be exacerbated. During an average tax season, public accounting professionals work more than 10 hours a day for an extended period of time (Jones, Norman, & Weir 2010). During this period, accountants are faced with demanding and unforgiving deadlines, which can cause significant conflict with family and leave little to no time for leisure activity (2010).

When you combine each of these stressors—long hours, an extended busy season, and limited time for family and leisure activities—you have the perfect recipe for job burnout. And burnout brings with it exclusively adverse consequences, affecting job performance and job satisfaction.

The hardest thing to admit is that no one sees it coming. I certainly didn't. So, when it hits, it hits hard, and you're left stunned and flailing to keep your head above water. Even worse, you find yourself working endless hours on tasks for which you have little passion or aptitude.

At some point, most accountants find themselves in a position of helplessness. We know things need to change, but we have no idea where to start. Eventually, some figure it out, like I did. But more often than not, accountants maintain the vicious cycle of working endless hours and seeing little gain. Just because this has been the way of the profession, however, does not mean we have to perpetuate the tradition.

How did we get here? How did the accounting profession become a mass of technicians and very few business leaders? These are the questions we will answer in this book. Read on, embrace the E-Myth philosophy, and discover how you can regain control of your practice and your life.

C H A P T E R

6

The Value of Taking Aim

M. Darren Root

Plan your work for today and every day, then work your plan.

—Norman Vincent Peale

Henry David Thoreau wrote, “In the long run, men hit only what they aim at.” I believe this quote expresses Michael’s core message in Chapter 5. It’s all about the envisioning the end and developing the plan to get there (*what we aim at*).

The previous chapter offers a clear road map for transitioning your practice into a business. And to do this, you must plan. Unfortunately, accountants often overlook the basic message of creating a plan because of the chaotic nature of running a firm. When you are constantly mired in work, who has time to plan? This is a common way of thinking in the accounting profession, and it needs to change.

Michael's planning message is one I've implemented in my practice with great success. In fact, it has worked so well that I created a guide for the accounting profession based on the tenets Michael advocates. His message is also a cornerstone of my Next Generation Accounting Firm™ presentation, which I offer across the country and to firms that I coach.

Like you, I know all too well about harsh deadlines—our profession is designed around them. We have the traditional busy season, quarterly payroll tax deadlines, W-2s, 1099s, monthly financial statements . . . and the list goes on. As a result, most accountants have only learned to juggle deadlines and deliver product—not how to build a streamlined, automated system to support their business.

To help build such a system, I have developed a framework, comprehensive workbook, and model to ease accountants through the planning process. Before you can review and apply these elements, however, it's important to complete a thorough evaluation of your practice.

In my experience, accountants are the worst at conducting an honest analysis of their own firms. This is not to say that the profession is against honest evaluation; rather, the problem arises from a busy schedule. When mired in the tedious tasks that define tax season, for example, who has time for a comprehensive analysis? But busy or not, if accountants want to change how they do business and transition from technician to leader, they must make the time.

So, on to the first question: What should you evaluate? The answer: everything.

The key to a good evaluation is understanding where your firm stands today. What services do you offer, and are you focusing on the services you perform best and that drive your economic engine? Who are your clients? Do you deal with a wide range, or have you narrowed down your client base to only those you desire—that is, to those who fit your defined services?

First, let's talk about the services you offer and why. When you started your firm, you probably took the same path as the rest of us—you took on anyone who walked through the door. As a result, your services were formed based on the clients' needs. Over the years, most accountants never stray from this model, which means they still offer an array of services instead of a well defined few.

Offering too many services is one of the biggest barriers to creating a business. Accounting professionals are so busy keeping up with disparate tasks associated with a variety of services that they simply don't have time to plan or implement change. This keeps the accountant at the technician level. By defining a select few services your firm can perform efficiently and within a streamlined workflow, you are better positioned to produce more work with less effort. I say it time and time again in my presentation: Define your areas of "greatness," and focus on those areas to drive revenue.

This leads me to the topic of clients. Successful accounting firms are in a position to select their clients. If the client doesn't fit the service model, that client doesn't go any further than a prospect. It's a simple connection. If you've defined your services, you can define your client base. For example, in my practice, we provide Back Office Support System (BOSSTM), accounting, tax, and payroll services. We do not take on clients that fall outside of this service model (such as audits, reviews, nonprofits, and trusts). We also focus on service-based businesses such as physicians, dentists, attorneys, and architects. By focusing on a defined client base, we excel at the services we offer and continue to build the business based on this desired clientele.

Let's take a quick look at how most firms operate today to gain a better understanding of the issues that face the profession.

For most of you, your current clients have been with you from the beginning and run the gamut in regard to the services they require. Most likely this means you don't have uniform processes

for how work is performed and completed. In other words, the client, not the firm, defines the process. Throw in the facts that your clients use their own internal accounting systems and have their own processes in place, and what you have is a mess. Combined, all this puts the accountant in reactive mode, having to complete work based on the specifics of each client account. In the end, your clients are setting the pace and calling the shots—not you. What a nightmare!

And then there's technology. Like services and client base, technology presents its own issues if not applied wisely.

Technologies for the accounting profession have advanced rapidly, offering a slew of powerful systems that can help accountants streamline processes firmwide. For example, the Software as a Service (SaaS) model enables firms to go completely paperless and work in the Cloud. Integrated software solutions are also available, allowing data to flow seamlessly from write-up, to tax, to practice management applications—eliminating the need to reenter data from app to app.

Although the technology is readily available, creating the ideal system requires firms to take time to research what is available and evaluate how solutions work together. Technology is the key to proper delivery of services to clients, not to mention the means by which your staff can work efficiently and with ease. I still remember the days of working on weekends just to keep up with e-mails and voice mails that went ignored during the week when I was buried in client work. Because technology is at the core of an efficient system, it must also be part of a firm's initial evaluation. What does your technology look like?

That's a lot to think about, but it drives home my point. If you don't take the time to plan, your firm will continue to exist in chaos and you will remain in reactive mode. Taking the time to evaluate your practice critically is an investment you can't afford not to make.

Let's not kid ourselves: There will always be tax returns to process, financial statements to compile, and calls and e-mails to answer. However, with proper planning you will find you have the time to complete these tasks during a normal workday because your business is operating at peak efficiency. Reading the words and understanding the concepts are not enough; you must take action to see the true rewards.

Let's begin where Michael did. First, we'll discuss your business plan, then your practice plan, and finally your completion plan.

Your Business Plan

The big question: What business do you want to be in?

It's a simple question, and one that must be answered before you can begin moving forward with change. A broad definition of your ideal practice is at the heart of your business plan, providing a clear picture of what must be accomplished. It allows you to create a mental picture of what will get you to your desired result.

To define "who you are," that is, what business do you want to be in, you have to ask yourself other questions. What are your strengths or core competencies (your areas of "greatness")? What services do you want to perform each day? What are you passionate about? What are you currently doing, and where do you want to go from there? As you ask yourself these questions, be sure to write down your answers, create lists, and continually work to refine your definition of "what business you want to be in." Once you have a clear, concise statement on paper, you've taken the first big step toward developing a sound business plan.

I found that creating my business plan required a lot of soul searching and tough decision making. For example, narrowing my client list to include those within defined niches, instead of taking

on every client that walked through the door. Or hiring more staff to take over the work for which I had always maintained control. Working through those tough decisions, though, brings clarity to your plan and allows you to move forward rapidly.

As you continue to develop your business plan, it's also important to remember that your business is personal. It's personal to you, as well as to your family, employees, vendors, and clients. So treat it as such. Allot the time required to develop a plan that will be pleasing to everyone involved—since everyone around you will be affected by the change.

Also, be aware that your plan is organic—always changing and growing. Your business plan should be treated as a living document to be reviewed and enhanced as your business grows. Just as you have evolved over the years, so will your business and the plan that supports it.

Let's start the process. Have your computer or a pencil and paper ready.

Begin your business plan with an accurate account of where you stand—a balance sheet of sorts. Start by making a comprehensive list of the services you currently provide. Include in your list all the industries you service (for example, construction, manufacturing, restaurants, and so on). Putting this information on paper allows you to see just how all-over-the-board you may be and will get you thinking about how you can better define service options. Of the firms I've coached, the majority conclude that they are trying to be all things to all clients, which is a deterrent to true mastery of any given service or niche. That said, at the heart of your plan is a clear vision of the business you are in and what markets you serve.

Also spend some time thinking about your strengths and your firm's strengths. Because you are the architect of your future, focus on the services you actually like to perform. Imagine that your firm focused on a limited number of service offerings—services for which you and your staff exhibit exceptional levels of

competency: What would your typical day look like? As firm owner who has defined my services, I can tell you that my days run smoothly and my staff is happy.

To be successful, you need to develop a burning desire to go to work each day. You can develop this by creating a work environment built on services you have a passion to perform, as well as clients that you enjoy serving. So, ask yourself: What services do I want to offer? Will these services create a work environment that gets me out of bed, excited, and ready to head out to the office? Passion drives happiness, and this feeling is contagious. A positive work culture is felt and perpetuated by your staff, family, and clients. You can obtain this type of culture if you have the right business plan in place.

For the most part, the broad accounting profession has not adopted the message of defining services and client base. Change is hard and scary; I understand this as well as anyone. However, accountants must specialize if they expect to transform their firms into businesses. Just look at other professions. Doctors who specialize become experts in their chosen fields, making them highly sought after and in a position to charge more for services. The same is true for attorneys, creative firms, and technology vendors. By specializing in a defined area, these businesses are not compelled to take on just any client who walks through the door.

Once you define the scope of your practice, your business becomes more manageable because there is less to, well, manage. Processes become standardized, workflows streamlined, and clients easily categorized because your business model is clear and concise. Can you imagine anyone walking into Starbucks and asking for a burger? That doesn't happen because Starbucks has a well-defined business model, which dictates their clientele and service expectations.

During my college years at Indiana University one of my professors said, "The key to success is figuring out what you're

really good at and having the clear conviction to stay focused enough and not veer off course.” Little did I know then the impact this advice would have as I built my firm. This is the same advice Michael and I offer in this book. I hope it has the same impact on transforming your practice.

Your Practice Plan

The big question: *What services and niches define your business?*

In the previous section, on business plans, we discussed the idea of defining who you are—who you want to be and the type of business you want to operate. Your business plan identifies your core competencies and strengths—offering a solid base upon which you can begin to mold your business.

With a clear picture of your mission in place, your practice plan will take you to the next level. In this plan, you get down to the details and select the exact services you will offer and the niche industries you will serve.

Your practice plan, if developed accurately, will help you identify what you do more clearly. These are the questions you will answer at this phase of the process:

- What specific services, niches, and clients will you serve?
- And more important, which will you eliminate?
- What geographic areas will you serve?
- How much do you want to grow your business?

In creating your business plan, you created a list of all the services you currently provide, as well as the industries you support. Then you used this list to identify your areas of strength—that is, the services and industries that support your

core competencies. In essence, you took an inventory of where you are today. Now, use this comprehensive list to identify a defined set of services and industries going forward . . . and abandon the rest.

This is a hard step to take, especially if you've provided an array of services to a variety of clients for many years. However, unless you whittle down your practice to something manageable, change is highly unlikely. You must keep in mind that you can standardize the way you work only if you also standardize your offerings.

Your service model will inevitably drive your client base. So once you've identified your core services and the niche industries that best fit your model, you should conduct a thorough review of your existing client list. Determine which clients fit your model—your “A” clients. In my firm, our “A” demographic includes those clients who require our core services (bookkeeping, accounting, payroll, and corporate and individual tax) and who fit our defined industry targets (service-based businesses such as physicians, attorneys, and architects). By creating a client base that fits your service model, you are better equipped to lead clients down a successful path based on your focused niche expertise.

Next, identify defined geographic areas for your niche clients. By focusing on defined areas, you can better target potential clients. It's much easier to find the niche clients you desire within a defined area. Using the Web, telephone book, or other marketing media, identify foundations, events, and organizations that provide the proper venues to capture prospects.

As I mentioned in Chapter 4, the accounting profession is designed to produce recurring revenue. Based on the decisions you make regarding your services, clients, niches, and geographic service areas, you can build strong, consistent revenue streams that require far less time to manage than you spend

on them now. Just consider the advantages of a uniform, streamlined structure:

- Enables you to select your desired client base
- Supports uniform processes for each service you offer—which means every staff member processes work the same way
- Allows you, not the client, to control workflow
- Significantly increases efficiency firmwide, so you can take on more work with fewer resources
- Supports a structured marketing program by allowing you to create targeted programs for defined niches
- Offers you and your staff true life–work balance
- Enables you to transition from working *in* your firm to working *on* your firm—moving from technician to savvy business leader

With the right practice plan in place, you can realize all of these benefits. Remember, it's about taking aim and then plotting your course to get there.

Your Completion Plan

The big question: Now that you've defined your business, how will you deliver?

Your completion plan helps you identify the systems and processes required to deliver the model you've defined. This is where the rubber meets the road. Defining who you are is all well and good, but it's of little worth if you cannot deliver.

The key to every successful business is the systems and processes in place. Take McDonald's as an example. Each franchise operates the same way—from the ordering process to the system for food preparation. The same is true for Starbucks. No

matter the location or the individual employees, the process is the same. McDonald's and Starbucks have precise systems in place to ensure uniform processes and efficiency of workflow.

When I use these examples while coaching firms, often I get the same response: "I run an accounting firm—every client is different. This is not retail, so I can't possibly do what McDonald's and Starbucks have done." But it's not about retail versus an accounting firm. It's about the *system*. With the right system in place, any business can operate in a uniform, efficient manner.

Bottom line: If you want to operate your practice as a business, this step is crucial. It is where you will transform a chaotic and inefficient practice, which relies on you as a technician, into a business that functions like a well oiled, well maintained machine—whether or not you are there. And that's what you want—the ability to take yourself out of your firm without a major breakdown in workflow.

Go back to your defined core services. Your completion plan should include a detailed strategy for how you will deliver each service. For example, to support a standardized tax workflow, you must define a process that includes how client data is collected, processed, and delivered. For a 1040 tax return, this process might include these steps:

1. Collect initial client data via an online organizer within the client's portal.
2. Organize client data and source documents within a single PDF using a SaaS-based scan-and-organize application.
3. Seamlessly flow data from the PDF into the application using integrated tax software, eliminating manual data entry.
4. Allow online review of the tax return through the client's portal.

58 The E-Myth Accountant

5. E-file tax return through tax software.
6. Deliver completed return to the client online within their portal.
7. Invoice client online within their portal.
8. Accept client's payment online.

You must document all processes to ensure that everyone is applying the same steps for each service offered. This provides a checklist of tasks for staff and clients and a well-designed document for educating new staff. Remember, you are the architect of your firm, so it is within your power to lead staff and clients where you want them to go. Doing so eliminates the chaos that occurs when clients dictate the process and multiple staff members apply disparate procedures to deliver the same service.

Your completion plan is the main document that allows you and your staff to execute services efficiently and effortlessly. It keeps everyone on the same page at all times. The processes defined within your completion plan support a broad, standardized system. And the *order* that a sound plan brings about is invaluable!

Find these and other titles by M. Darren Root
on Amazon.com and Rootworks.com



The Next Generation Accounting Firm®
See more at www.Rootworks.com

