



# SOLVING SEASONALITY

How Accounting Firms Increase Profitability by Leveraging Freelancers During Busy Season

## Meet Brad and Josh

We are two ex-PwC professionals and the co-founders of Beech Valley Solutions, Top Tier CPAs On Demand.



We founded Beech Valley in 2014 because we witnessed top CPAs leaving public accounting en masse, as the current model of working full-time for a firm wasn't the right fit for them. Meanwhile, firms were struggling with managing staffing levels due to the inherent seasonality of the profession. We knew we could solve both of these problems and everyone would benefit.

Our model, described in this report, has proven to be effective for all types of accounting firms, from one-partner practices all the way up to top ten CPA firms. Our clients keep coming back.

The following analysis will provide you with a better understanding of our approach.

If you'd like to learn more about how we can help your firm turn these numbers into a reality, feel free to contact us.

We look forward to being in touch.

Thank you,

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## What's In This Report

- Why You Should Care About The On-Demand Economy
- Analyzing The Real Cost of Your Full-Time Employees
- A Cost-Benefit Analysis of Incorporating Freelancers into Your Growth Strategy
- How to Avoid Common Pitfalls of Embracing On-Demand
- About The Firm: Beech Valley Solutions

## What Is Independent Work?

A large percentage of the professional working population has a permanent job with a single employer. However, over the last decade the portion of the population engaging in independent work has been rapidly expanding. While there are few official statistics, most estimates are that 20-30% of the population engages in Independent Work.

Independent Work is characterized by three defining features:

1. A high degree of autonomy
2. Payment by task, assignment, or billable hour
3. A short-term relationship between worker and client

We refer to the segment of the population engaging in Independent Work as the **On Demand Economy**, but another common term for this is the **Gig Economy**.

## Why Should You Care?

For decades, accounting firms have been meeting their client demands through deploying project teams of CPAs who are permanent, full-time employees of their firm.

This method of providing accounting services to clients works best for firms that exhibit:

- › Consistent client demand throughout the year
- › Predictable employee turnover
- › Ability to quickly replace newly departed employees
- › Steady, predictable growth rates

Few firms meet any, much less all, of the above criteria. In fact, most firms experience quite the opposite:

- › Client demand that is seasonal in nature
- › Employees who unexpectedly leave the firm prior to busy season
- › Search processes that can take several months to hire a new employee
- › Having to turn down new client opportunities due to resource constraints

Effectively leveraging CPAs who are Independent Workers allows you to flex up resource capacity during busy season(s), and flex down capacity for the remainder of the year.

The purpose of this white paper is to demonstrate the benefits (cost savings, employee morale, quality improvement, etc.) experienced by firms utilizing Independent Workers.

Following the analysis, we highlight the common pitfalls experienced by firms who are learning to work within this new way of doing business, and we outline our process for ensuring client success.

But first, let's examine the real cost of permanent employees vs freelancers, based on real-world studies.



# Cost Analysis

## The Real Cost of Permanent Employees vs. Freelancers

### THE REAL COST OF A SALARIED CPA

The first step to analyze the potential cost savings of embracing the On Demand Economy at your firm is to calculate the cost of a standard, full-time hire.

Establishing the exact cost of a Full-Time employee is debatable because many costs are implicit. For example, what happens when you are paying an employee a full-time salary but they're disgruntled and unproductive? Their lack of productivity is going to force you to hire an additional employee; therefore, there's a detrimental cost to slacking.

For this analysis, we erred on the conservative side. Why? Even with the most optimistic outlook on your current staff, the case for On Demand is still proves to be compelling.

Let's take a look at what each full-time employee is costing your firm, specifically at the Senior Associate level:

Salary	\$75,000.00	
Recruiting / Training <sup>1</sup>	\$37,500.00	
Taxes <sup>2</sup>	\$7,545.00	
Benefits <sup>3</sup>	\$18,750.00	
Cost of a bad hire <sup>4</sup>	\$2,250.00	
		<b>Total Cost of Employee</b> <b>\$141,045</b>

The estimated real cost of a hypothetical employee earning \$75,000 is **88% higher than the base salary.**

## THE COST OF A FREELANCE CPA

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Comparatively, a freelance resource charging 2,000 hours at \$85/hour would cost your firm \$170,000 assuming 2,000 billable hours.

For full-time, recurring needs, salaried employees still make practical sense for CPA firms. Thus, it's not advisable to convert your entire workforce to freelancers.

This gets interesting when you consider the seasonal nature of the accounting profession. Your firm can experience substantial cost savings by using freelancers during busy season, while also easing the workload on your full-time professionals.

Many firms who realize these are now clients of ours, and we'll share a similar analysis that they've performed themselves in-house.

Let's walk through an analysis of a hypothetical firm.

<sup>1</sup> **Society for Human Resources Management** estimates the average cost of recruiting and training is 6 to 9 months of salary. We used the lower end of that range for this analysis.

<sup>2</sup> Taxes includes:  
**Payroll tax:** 7.65% | **FUTA:** 6 % up to \$7,000 | **Workers' Comp:** 1.85%

<sup>3</sup> **Joe Hamzida, Senior Lecturer at MIT School of Management**, states benefit costs employers approximate 35% of salary. Benefits include vacation, health coverage, 401k plans, life insurance, and dental insurance. To be conservative, we assumed only 25% for this analysis.

<sup>4</sup> **U.S. Department of Labor** estimates the cost of a bad hire is on average equal to 30% of an employee's salary. We assumed that this hypothetical firm is outstanding at hiring, and that they hire great candidates 90% of the time.

## Case Study:

### How Much Does a Hypothetical Firm Save Working Under Our Model?

We assumed the following for a hypothetical firm for this analysis:

- **50 Senior Associates** across all offices
- Each full-time Senior Associate currently bills **2,000 total hours** throughout the year
- 1,000 of those hours occur during a **4-month busy season**; 1,000 hours during the remaining 8 months
- **48 weeks** in a year to account for training and vacation

#### EXISTING MODEL:

#### 50 FULL-TIME, SALARIED SENIOR ASSOCIATES





Total labor costs of this group under the existing model are broken out as follows:

Salaried Employees	50
Cost Per Employee	\$141,045
<b>Total Cost</b>	<b>\$7,052,250</b>

Under the existing model with 50 full-time employees, the following is true:

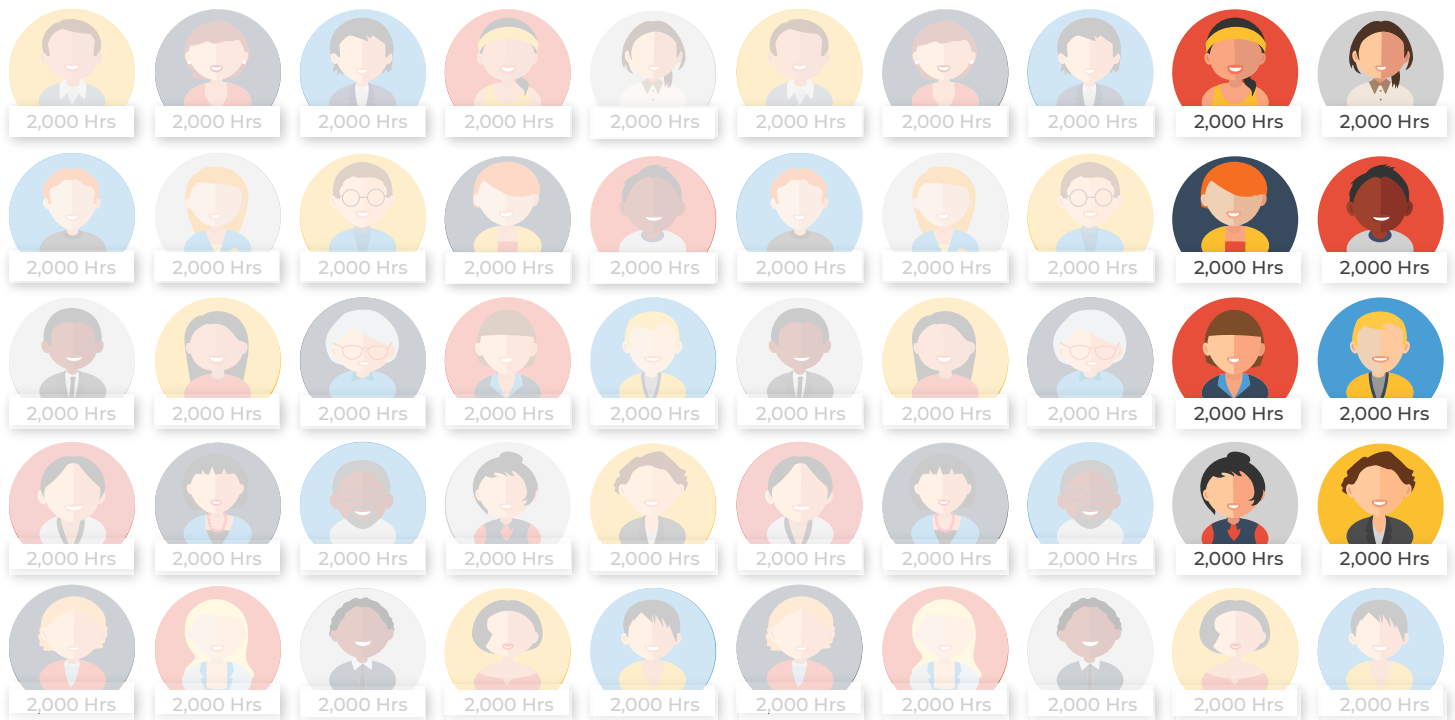
- \$7.1M of labor expense is incurred related to the 50 Senior Associates
- Each Senior Associate bills an average of 58 hours per week during busy season, and only 32 hours per week the remainder of the year

**NEW MODEL:**

**42 FULL-TIME SALARIED SENIOR ASSOCIATES; 8 FREELANCE CPAS**

**42 Full-Time CPAs**

**8 Freelance CPAs**



Under the new model, 15% of the Senior Associate class is comprised of seasonal freelancers during busy season, providing 8 freelance CPAs and 42 full-time CPAs during peak season and only the 42 full-time CPAs for the rest of the year.

# Total Cost Savings on Labor

Under the new model, total labor costs are broken as follows:

Salaried Employees	42	Freelancers	8
Cost Per Employee	\$141,045	Cost Per Freelancer	\$85,000
Cost - Full Time	<b>\$5,923,890</b>	Cost - Freelancers	<b>\$680,000</b>

Total Costs: ~~\$7,052,250~~ **\$6,603,890**

This hypothetical firm saves **\$368,330 in labor expenses** per year by outsourcing just 15% of their Senior Associate-level workforce to freelance CPAs.

Under the assumptions we noted earlier, this leaves 50,000 off-season hours for the remainder of the year.

Excluding time allocated for vacation and training, the 42 full-time employees will have 97.5% utilization outside of busy season, averaging **39 billable hours per week**.



● Full Time ● Freelancers

# Common Pitfalls:

## Working with Accounting Freelancers

Partners at successful CPA firms understand how important managing your full-time labor force is to the bottom line. Providing effective training and resources, creating a culture your employees can relate to, and ensuring there are open lines of communication from the most novice intern up to the Managing Partner are all important and familiar elements to maintaining a successful firm.

None of this changes when adding seasonal CPAs to your team; however, there are some unique challenges.

We've worked with over 60 CPA firms ranging from sole proprietors all the way up to Top 10 national firms. This experience has allowed us to witness the common pitfalls and learn how to effectively address them.

### **COMMON PITFALL #1:**

#### **HIRING FREELANCE CPAS WHO OVERSELL IN THEIR INTERVIEWS.**

There are a variety of reasons that people decide to become freelancers. Some of the most common we see are to:

- Spend more time with family
- Pursue passion projects, such as extended travel, during a significant portion of the year
- Maintaining a side business, such as a real estate venture, that brings in additional income

The McKinsey Global Institute defines these freelancers as Free Agents, meaning they engage in Independent Work out of their own choosing, not out of necessity. These are the freelance CPAs that you want to identify and hire.

Conversely, another group of Independent Workers are defined as Reluctants, meaning they're engaging in Independent Work out of necessity due to the inability to maintain a traditional job. Given the labor market within the accounting profession, the Reluctants engaging in Independent Work are generally unable to remain at a firm full-time due to unsatisfactory job performance in previous roles.

## HOW CAN YOUR FIRM AVOID HIRING RELUCTANTS?

Most partners we speak with are very confident in their ability to anticipate the future performance of CPAs through interviewing. If a CPA is put through enough rounds of interviews, shortcomings will eventually be identified by one of the interviewers. While interviewing is an effective vetting procedure, and one that we use extensively as well, it's not the most effective. This is where pre-employment testing services come in.

## PRE-EMPLOYMENT TESTING SERVICES

We require all applicants in our Freelznce CPA Network to meet minimum thresholds on an aptitude and personality test.

Significant research has been performed, and pre-employment testing for aptitude has proven to be approximately 3x more effective than interviewing a candidate for predicting work performance for roles that are analytical or technically challenging in nature.

In our case, historically only 12% of initial applicants meet the baseline level for aptitude to move forward with the interview process. Testing is the most critical element of our vetting process, as it allows us to effectively evaluate talent before any of our team's time is spent on an interview.

ONLY 12% OF OUR APPLICANTS MEET OUR BASELINE



## **COMMON PITFALL #2:**

### **NOT HAVING ADEQUATE IT INFRASTRUCTURE IN PLACE FOR ONBOARDING FREELANCE CPAS.**

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Due to our commitment to identify the top 2% of CPAs, we generally will not work with a client who is not open to bringing on remote freelancers.

Working with clients on a remote basis is an important element that enables us to connect them to the truly the absolute Top Tier CPA talent for two reasons:

1. It allows us to work off of an expanded pipeline, as we can onboard CPAs who reside all over the country, including non-major markets.
2. Freelance CPAs value autonomy, so remote opportunities are viewed by them as an advantage. Offering only remote opportunities allows us to attract better talent.

While we make rare exceptions on a case-by-case basis, we don't make any promises for firms that require local, onsite resources.

As a result, our service offering isn't for every firm. We're generally more open to working with firms that have gone entirely, or nearly entirely, paperless. We find that our offering works best for firms who use cloud tax software, such as CCH Axcess or Thomson Reuters UltraTax, or have an effective process for allowing remote freelancers to access their servers remotely to use hosted software.

If you're not sure if your firm is as this point yet, try experimenting with allowing a few of your more tech savvy, full-time employees to work from home for a couple weeks. Have them report back with any obstacles they ran into, and work to resolve those obstacles going forward. Once these obstacles have been addressed, your firm will be in a much better place to effectively onboard your seasonal CPA.

### **COMMON PITFALL #3:**

#### **HIRING A FREELANCE CPA WITH THE WRONG EXPERIENCE.**

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When working with a freelance CPA, we recommend an abbreviated training period up front. If your firm is onboarding and working with a freelancer for 3 months, then 2 days of training will have an immaterial impact on your budget.

It's much more effective to ensure your freelancer has an idea of anything that makes your firm unique from previous firms they've worked with in the past.

To ensure that this abbreviated training period is sufficient, we match freelance CPAs who specialize in the type of work they will be doing for our client firm.

For example, if your firm specializes in tax compliance for expats who own and operate small businesses, we will match a top CPA who has significant experience in this area.

Beyond matching experience, we will ensure that our freelance CPA has significant experience with any relevant software utilized by your firm.

We're able to quickly match the experience requisites by building profiles of every CPA that gets accepted into our platform, as well as building profiles of every firm that is a client of ours.

### **COMMON PITFALL #4:**

#### **INABILITY TO EFFICIENTLY HIRE TOP CPA FREELANCERS.**

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Traditional hiring practices at accounting firms usually require a 2~6-month lead time to hire a top CPA into their practice, assuming the firm's recruiting processes are established and effective. Hiring seasonal freelancers for your firm is an extremely time sensitive process.

If your firm misses the ideal start date by 2-3 months, then the need will no longer exist by the time the right resource is identified, vetted, and ready to sign the dotted line.

It's very unlikely that your firm will be able to effectively hire the right seasonal freelance CPAs at the right time by using the same tactics used to hire permanent employees. In fact, this is the precise reason why platforms exist across the On Demand Economy.

Beech Valley's platform is a digital marketplace containing the following characteristics:

- › Large pool of supply and demand
- › Easy to join and use
- › Infrastructure and best practices gained through years of experience
- › Efficient matching of resources to opportunities

Our Top Tier CPA Network receives an average of 103 applicants per day. We have automated processes and a full-time, dedicated team which allows us to efficiently vet these applicants down to the top 2%.

Our software compiles information and analyzes the professional DNA of every applicant, which allows us to efficiently match them to each individual firm's needs.

The key difference between traditional hiring and on-demand hiring is the need to identify, vet, and approve 5 candidates who could be a great fit for each open position.

Generally, the most effective way for an HR team to work with freelance CPAs is to utilize Beech Valley's platform to get access to a pool of top talent available on a moment's notice.

**2.2% PASS RATE**



# About the Firm:

## An Introduction

Beech Valley Solutions is the only accounting staffing firm that can effectively and consistently provide the type of CPAs needed by public accounting firms. Our company was founded by two former PwC auditors who felt that traditional staffing firms were falling short with their public accounting clients.

### WHY BEECH VALLEY?

Our founding partners have extensive public accounting and industry experience, so we understand the unique accounting and finance needs of mid-sized, high-growth firms. We provide you with personnel who have the necessary and relevant experience your project requires, and eliminate the burden associated with full-time hiring, such as recruiting, on-boarding, and benefits administration.

Most importantly, the speed at which we can fill openings is unprecedented. We've built a network of thousands of ex-public accounting employees looking for freelance opportunities in accounting.

Just a Few of the Cutting Edge Firms Utilizing Top CPAs  
Through the Beech Valley Platform:





# Our CPAs Excel In the Following Areas

## TAX: ANALYSIS, PLANNING, AND COMPLIANCE

Our CPAs typically possess significant experience performing tax consulting for large corporations, small businesses, and high net worth individuals.

They specialize in the following areas:

- › Tax Planning
- › Federal, State, and Local tax compliance
- › Tax Research
- › Provisions
- › Trusts and Estates
- › Transfer Pricing

## FINANCIAL ACCOUNTING ADVISORY & ASSURANCE

Our CPAs typically have 3-15 years' experience in assurance and industry at both private and public companies.

They specialize in the following areas:

- › Audit planning and readiness
- › FP&A
- › Controllership
- › Internal controls and SOX
- › Project Management

## TECHNICAL ACCOUNTING

Our professionals include specialists across a variety of industries, and they have experience advising clients on complex accounting issues including implementation of new GAAP.

Specifically, they are specialists in the following areas:

- › Revenue recognition accounting for multiple elements arrangements, including implementing the new revenue standard ASC 606
- › Stock-based compensation
- › Business combinations including purchase accounting and discontinued operations
- › Lease accounting

We are proficient in preparing technical memos and accounting policy documents that clearly map a company's operations to the relevant accounting guidance.



## **INTERESTED** IN LEARNING MORE?

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For more detail please feel free to contact us by email at [contact@beechvalley.com](mailto:contact@beechvalley.com), or by visiting us at [BeechValley.com](http://BeechValley.com).

We look forward to being in touch.  
– Brad Hughes and Josh Tarica –