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THE ACCOUNTING PRACTICE OF THE FUTURE

Sarah Penn

This paper seeks to answer the questions: 'Does the current model of an successful accounting practice hold true?' and if not, then what is next? Further, how should accountants and other actors on the SMSF stage transition their businesses to meet the demands of the future?

There is endless discussion about automation, datafeeds, apps, online access, etc, but what seems to be missing is a look at how the accounting 'machine' works – what are the drivers of value, what are the underlying assumptions, do they still hold up to scrutiny? Let's get started.

Accelerating rate of change

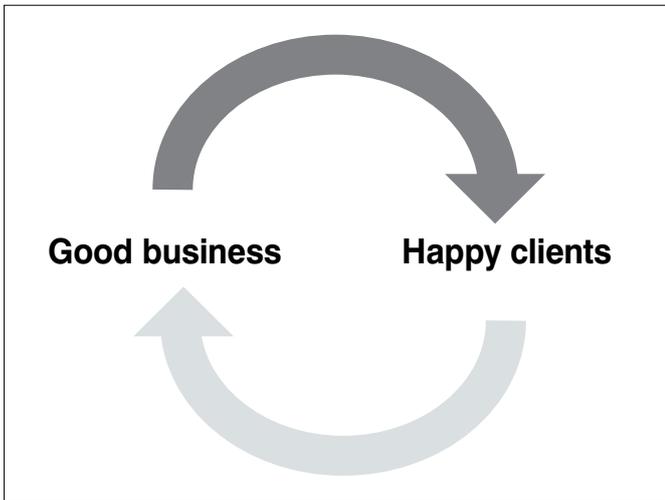
It's a well-known fact that the rate of change is accelerating. What seemed normal 20 years ago is considered archaic today. Expectations are rising all the time, and it's a constant challenge to meet them. One of the reasons that change is accelerating now, especially in the technology arena, is that computers are now able to do what we thought they should be able to do 10 years ago. I sat in on a focus group a few years ago, and as one accountant said in frustration 'they are just computers! I don't understand why you can't get them to talk

to each other.' Quite. But now, the time has come. There's a veritable plethora of new software and apps coming onto the market and the landscape is rapidly changing.

Imperative for change

I believe the tidal wave of technological change is still to come for service businesses such as accountants. According to Benedikt Frey and Michael Osborne in their 2013 paper, "The Future of Employment: How Susceptible are Jobs to Computerisation?" accounting, auditing and budget analysis face an 85% change of becoming automated. To put this another way, if you want to continue charging the same fees that you do today, to the same customers, for the same services, then you will find likely your margins being eroded, and your customers gradually finding other providers. However, if you are able to pivot your business to become a value add, advice led (in the broadest sense of the word) business, then you stand to weather the changes ahead and come out the stronger for it.

For instance, are you just completing tax returns and checking for compliance issues, or are you truly enhancing the lives of your clients by deeply understanding their goals and dreams, and helping them become a reality?



Yesterday's winning formula

This is my take on yesterday's winning formula for an accounting practice. You look after your clients, and they look after you. A virtuous circle if you like. This model is based on four key assumptions:

1. Everyone needs an accountant
2. If I charge reasonable fees I will make a reasonable profit for my business and my family
3. I give strategic advice that adds value to my clients
4. My business delivers solid customer service to my clients

Let's unpack each of these in detail.

Assumption 1: everyone needs an accountant

This still holds true in many cases, but WHAT they need from you is changing. Bookkeeping and SMSF administration can be obtained very cheaply these days, and are both being sent offshore at a rapid rate. Interestingly though, I suspect many of the people overseas who are working as accountants and administrators are going to find themselves without work again in 5 or 10 years as automation rapidly takes over.

Assumption 2: reasonable fees = reasonable profit

This really goes to the heart of how many accountants see themselves: as reasonable people, charging reasonable fees for a quality service. The problem is that fee pressure is now quite intense, while costs are rising. Talking about raising fees or changing your charging model can feel a bit mercenary. But it has to be done.

Assumption 3: strategic advice

Accountants are often referred to as the 'most trusted advisor'. And this has been the case for many years. From July 2016, however, you will only be able to give SMSF advice if you are licensed. While it sounds reasonably easy, it's a little like a doctor becoming a dentist - it's a bit more complicated than it might look at first pass. If you plan to continue to give SMSF advice to your clients from the middle of next year, you need to get organised now. Personally, I think operating under a full licence is more sensible than a limited licence; that way if a client does want a product recommendation you are in a position to assist them. The paperwork and overheads are pretty similar for both, so better not to get caught short.

If you are worrying about making the wrong decision, and that's holding you back from making ANY decision, it's worth remembering that you can change your mind in the future. I am absolutely positive that there will be many accountants moving to get a licence, move licensees, and cancel their licence in the next few years as the dust settles. Existing financial planning dealer groups are also still getting their heads around the differing needs for accountants versus advisers. Having said that, there are some groups doing a great job of assisting accountants to transition to the new, paperwork-filled, world that is an AFSL.

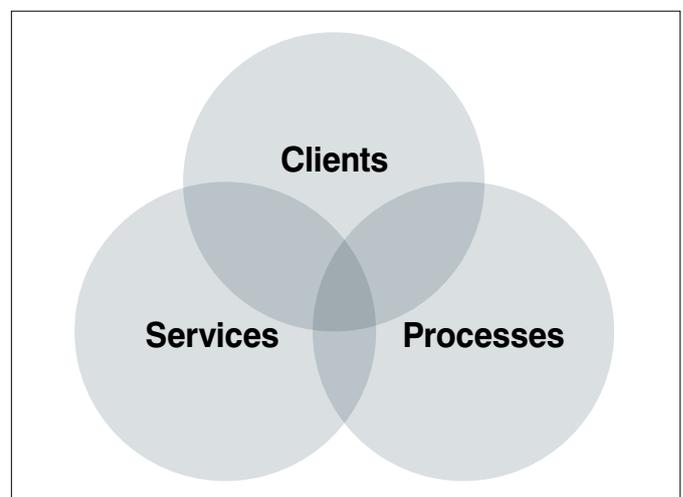
Assumption 4: customer service

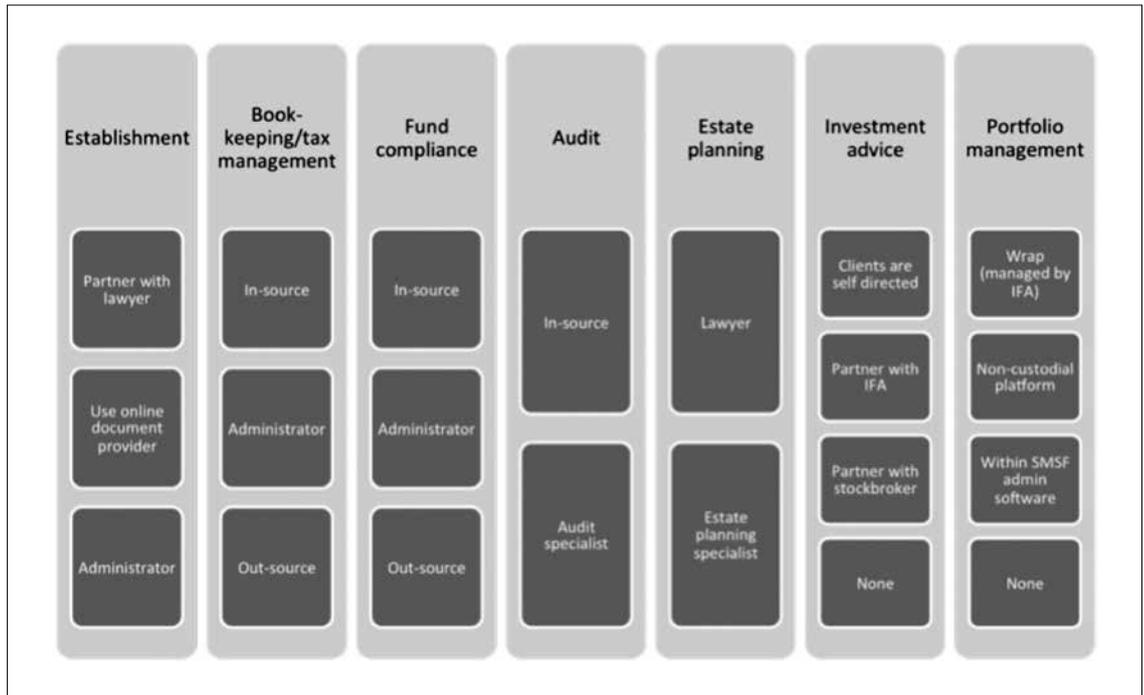
It is no longer enough to have a friendly voice on the phone and the right coffee when your clients come in for their annual review. Clients expect more, a lot more. They want online access to their SMSF and expect that you will be able to send information to them whenever they want with the click of a button. This is an insidious issue. Obviously, you're not going to suddenly lose all your clients because they can't log in to see their SMSF. But over time, your relationships may slowly erode, and you will find it more difficult to find new customers, the lifeblood of any growing business, who will be looking for an accountant to give them similar access to their funds.

The other issue is that if your customer service is highly reliant on individual people instead of repeatable systems and processes, then you are probably limiting the number of customers that you can actually manage. If it takes hours to prep for every client meeting, because you don't have all the information you need at the click of a button, then you simply can't expand your business at the rate you otherwise could.

Tomorrow's winning formula

Given that current set of assumptions is under threat, a new framework is required to describe how a business can continue to succeed. I therefore propose an interlinked model, consisting of the right clients, right services and right processes for YOUR business. The key, of course, is to have all the moving parts working in synchronicity, to maximise the value derived. It is also important to note that there is no one 'perfect model' or right way; it's about what's right for you and your business.





The quote

Bookkeeping and SMSF administration can be obtained very cheaply these days, and are both being sent offshore at a rapid rate.

The right services

I find it easiest to start with the right services, especially for established businesses. (If you were starting a new business, then you might consider clients first).

Above are just some of the services you could offer, and how you might provide that service to your clients.

For each service, you need to consider what works best for your business. In determining the right service arrangements for your business, you should consider:

1. What are your key strengths? What do you enjoy doing? It's also worth asking your team which services they think are worth providing. And of course you should consider your existing customer base – what are the services that they value?
2. Economies of scale – while you might enjoy or be good at delivering a particular service, many services in the SMSF arena become either very expensive to provide, or simply a business risk.

More and more accountants are taking advantage of outsourcing, in order to free up time to concentrate on their own value-add services. If you are already outsourcing, or considering outsourcing, here are some questions to ask the business in question:

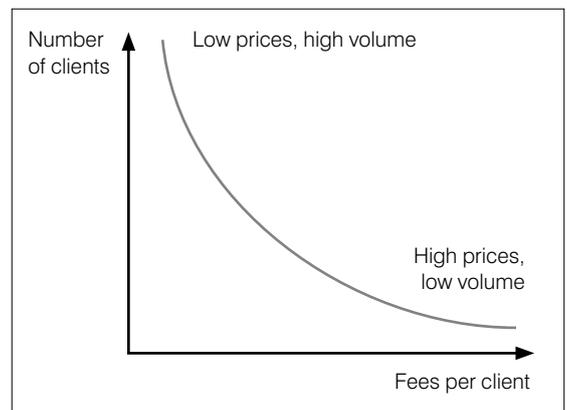
1. What are their long-term plans? Many providers are building to sell, which is perfectly reasonable for them, but might impact on the service you receive in future.
2. What is their service proposition? Can they offer a complete online experience? Will they treat your customers as well as you treat them?
3. What technology do they use? How is it integrated in their business? Will it make your life easier too? Do they plan to continue to invest? This last question is

probably the most important – investment in technology is not a ‘do once’ project, it’s an ongoing commitment to delivering the best experience possible to you and your clients, and needs to be maintained.

Having said all that, there are some excellent providers in the SMSF arena, and you will potentially be doing your business and clients a disservice if you insist on doing everything yourself without considering the alternatives.

Pricing

The time has come for accountants to move past a \$ per hour basis and price according to the value you add to your clients. It's classic economic theory – don't get caught in the middle. Consider Myer and David Jones – being squeezed from high-end stores at one end, and Kmart and Target at the other. What is the future for them? I'm not sure.



I am concerned that many accountants are going to get caught in the middle in the same way: At one end, low price high volume SMSF administrators will price accountants out of the market; at the other, specialist groups focusing on family offices, HNW individuals, etc, will outcompete on services. Where does this leave the average suburban accountant? I'm not sure frankly. What I do know is that you don't want to leave this to chance.

It is important to ask yourself, are you charging enough? This may sound counter-intuitive given my previous comments regarding price pressure, but in actual fact, many accountants under value their services, especially in the strategic advice area

There are many different pricing models available and considerable literature on the subject. Suffice to say, you need to have a plan... and then you need to implement it.

Implementing a change in pricing is perhaps the most difficult step of all. And, I suspect, where the best laid plans don't fall by the wayside. If you break this process down into manageable steps, you're more likely to succeed. Perhaps you will discuss with each client when they come in for their annual review, or craft a nicely worded letter to send out. Make sure you've written up an FAQ for your support staff so they can relay the right messages to your clients. Many businesses choose to relaunch pricing in conjunction with new service packages, which can be a good way to go. Be prepared for some fall out, but understand that there's no point offering the best services if it is simply unprofitable to do so.

The right clients

Great clients make it all worthwhile. They appreciate what you do, pay on time and recommend you to their friends, family and associates. You need more of these people. The question is, are there enough of them to support your business? Or do you need more? Or could you make more money by offering more services to the clients you already have? A quick back of the envelope calculation will give you a starting point here: clients x new fees = ? Does this cover your running costs? And if not, what are you going to do about it?

Note that this is where the circles start to become interlinked. You can't make decisions in one circle without affecting the other areas. Do you need to find more clients to make the service offerings make money? Or offer more services? Or reduce costs through outsourcing, etc.

It's important to spend some time thinking about your ideal client. What makes them ideal? Some businesses focus on a particular niche, say dentists or tradespeople, or you might choose a different path. What is important is to have an idea of what the ideal client looks like, and then figure out how to find more of them.

Speaking of, if you want to find more clients, then make sure you have a decent web presence. By decent I mean nice looking, easy to navigate and updated regularly. This doesn't have to be a full website; a Facebook company page is an easy way to get started. Just make sure that you post new information at least weekly. And don't worry about writing a new article each time. Links to interesting articles and relevant ideas work just as well. According to the SPAA/Macquarie Business Models report last year, 64% of high value SMSF businesses use digital for client acquisition, compared to an average of 40%. A coincidence? Probably not.

The right processes

Processes will make or break a business. Workable, documented processes allow you to go on holiday, increase the value of your business, and do more with the same number of staff.

Let's consider three groups of people who make up your business system – your staff, your suppliers/partners and of course your clients.

Staff and processes

Interesting, the latest SPAA/Macquarie business models research found that SMSF businesses tend to have the same cost profile, regardless of size, specialisation or profitability. Staff accounts for around 50% of those costs. To me, this suggests that becoming more efficient doesn't mean getting rid of staff; it means freeing them up to perform tasks that are more valuable to clients and therefore increase the overall profitability of the firm.

So my question is, do your people have to rekey information, spend ages trying to get data, doing menial jobs? SMSF is all about administration, which means that yes, there are LOTS of basic, menial tasks. If these have been automated or outsourced, then you are in a winning position. If, however, you expect people with an accounting degree and ambition to do boring, repetitive work, then you might want to reflect on the staff engagement and turnover in your business.

The interesting thing is, your staff, especially your younger staff, would probably love the opportunity to work with you to re-engineer the processes in your business. This is not a problem that you have to solve by yourself.

Suppliers and processes

As they say, you are only as strong as your weakest link. Processes between businesses are just as important to overall efficiency and profitability as processes within your business.

The processes that you have between your businesses and your suppliers, referral partners, white labels, product providers, etc, are of utmost importance to the success of your business. If you find a relationship is not working with a particular business, before doing anything, investigate the processes that are in place. Are they robust? Are they documented? Does everyone know what they are responsible for, and when? I would suggest that in many cases, what appears to be 'personality clash' is, in fact, a lack of clarity around processes.

If you are looking for new suppliers and/or outsourcing arrangements, then you need to look at the existing processes and automation that they bring to the table. In fact, in many cases you can completely remove the need for some processes (reporting for example) by everyone having access to the same online information at the same time.

Customers and processes

And lastly, customers and processes. You should be aiming for 24/7 access and a seamless experience. You will need both your staff and your suppliers to work with you to create this.

Think about on-boarding. What process do you use? Do you use a CRM with standard workflows that everyone in your business can access? Do you have a standard welcome email that goes to clients? What does it include? Which staff members are involved? What are your follow-up processes post client meetings?

And then, ongoing communications: do you regularly update your clients with their SMSF portfolio value and any outstanding issues/actions? If not, why not?

You might also consider document management and sharing, upgrading trust deeds, reviewing investment strategy, etc.

Basic process review using swim lanes

If you want to review any processes in your business, consider using swim lane analysis. It's very simple; the different people/businesses involved along the top and then the process goes down the page. There are lots of internet resources available on swim lane diagrams. In fact, I find the best way to do this is on a wall with sticky notes – for all the automation talk, lo-fi is often still the best way to go. Here's an example of a swim lanes diagram.

"Approvals" by Paul Kerr - <http://commons.wikimedia.org/wiki/File:Approvals.jpg>. Licensed under CC0 via Wikimedia Commons

Note that In this example, you can see that the customer puts in a purchase order to sales, who enter it into a system. The contracts agent then checks the order and proceeds differently, depending on whether the contract terms are standard or non-standard. Also, not that this example shows just one part of a much larger process; I would recommend this approach so that you don't get overwhelmed before you've even started.

Why not start with a process that currently causes problems in your business, and map it like this? You will soon see where the issues are, especially if you can't even get everyone to agree on the current process. There's something about writing something down that re-

ally gets everyone to focus and brings issues/concerns to the surface, so they can then be dealt with.

Putting it all together

There's no one right way to run a business. There are, however, some principles that hold true. If you have the right services, clients and processes for your business, and the right interplay between those elements, then you are well placed to continue having a successful business.

The most important thing is to get started – if you are running a highly profitable, growing business, then it might just be some tweaking around the edges. If you are just starting out, or things aren't working the way you would like, then a bigger overhaul is probably in order. In my experience, once a few elements come together, the rest seem to fall into place more easily.

Why not start by getting your team together and agreeing the three top opportunities and three top issues for your business. And I can't say strongly enough, don't try to do this on your own. You can be sure that if you think there are opportunities to do things differently in your business, then your staff will feel the same way. And what's more, they have probably already mentally solved at least a few of the issues at hand.

If you have any questions about anything in this paper or would like more information on a particular topic, please get in touch. We would love to assist you. **FS**

