



Accountants RESEARCH REPORT 2016

The 2016 Report provides a snapshot of the accounting landscape and examines:

- Strategic Threats
- Concerns and Needs
- Advice Practice of the Future
- Growth Opportunities
- Professional Associations and Government
- Way Forward



GROWING OR GOING? ®

Foreword

2016 Accountants Research Report

On behalf of the Bstar team, our Alliance Partners (Bstar clients) and valued Sponsors we are pleased to present you with our 2016 Accountants Research Report.

We have been overwhelmed by the response to our 2014 and 2015 Reports. Accountants express to us they like the practical content featured in our Reports and the focus on practical solutions to key industry threats and issues facing their practice.

It is clear from this year's Report that there is high awareness of the need to change, but low action. Accountants want to grow their advice services, but are struggling to understand where to start. This year, we are introducing the 5 phases to transitioning to an Advice Practice.

Accountants are stating that their major priority is on growth. Their highest business concern in 2016 is attracting new high value business clients.

This year's Report outlines new and exciting growth opportunities, including the most up-to-date research on why SMEs need Business Succession Planning advice.

Effective succession planning is one of 4 top concerns of SMEs and more importantly the need to act has moved LOW to HIGH. By providing these specialised services, accountants can replace declining traditional revenue streams and attract new business clients to their practice.

We also explain how service and industry specialisations are effective strategies to retain and attract SMEs.

This Report is based on our ongoing, face-to-face Needs Assessments with existing and new Bstar Alliance Partners. Without their support we could not provide the unique insights featured in this Report - thank you to everyone who participated in the discussions.

We hope you enjoy reading our Report and welcome your comments and feedback.

Yours sincerely,



Grant Bloxham

CEO

Bstar Pty Ltd

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METHODOLOGY

Bstar has a relationship with more than 200 accounting and financial planning practices. A Bstar Alliance Partner is typically a 2-10 partner accounting and/or financial planning business that has been trained and accredited in Bstar's Value Improvement Benchmarking Advice ('viba') advisory process.

The content in the 2016 Accountants Research Report is taken from Bstar's ongoing face to face strategic discussions conducted with accounting and financial planning practices. Bstar continues to collect real time, live data all year round. The 2016 Report updates and expands on the 2014 and 2015 Reports, and includes material from reinterviewing previous Alliance Partner participants and conducting new interviews in 2015. The primary tool utilised to collect the information in this Report was the Bstar Needs Assessment process.

Bstar has used the real life experiences of accounting practices who have and haven't successfully introduced advisory services into their practice - to tailor the suggested solutions for the concerns and issues identified.

Executive Summary

In 2014 and 2015 Bstar's Accountants Research Report provided insight into accountants in public practice. Bstar spoke to accountants, and highlighted how they felt about being in practice - particularly their concerns and needs.

Now Bstar is providing the update - what's new, and what's changed. Has awareness led to action? What are this year's big issues?

Accountants are telling Bstar their major focus is on growing. Their highest business concern in 2016 is **attracting new high value business clients**.

This year's Report introduces the 5 phases to transitioning to an Advice Practice and the opportunity for accountants to generate **7 alternative revenue streams per client**.

It describes new and exciting growth opportunities, including the most up-to-date research on **why SMEs need business succession planning advice**.

Strategic threats

In this year's Report, Bstar has identified **2 new strategic threats** facing the accounting profession.



There is now general acceptance within the industry that compliance fee growth rates and profit margins will continue to decline. In a market where 'ideal' business clients are in high demand, and as competition increases, practices are discounting compliance fees, even below cost.



Extract from a Bstar Alliance Partner Social Media ad.

By aggressively pricing compliance work, practices aim to retain their existing clients, and to attract new ideal clients.

It is too early to tell whether compliance work will decline further, and simply become an adjunct to advice services – a necessary part of a full service Advice Practice.

Bstar has also updated last year's top 5 strategic threats. These strategic threats are still present, and those listed by accountants remain unchanged, however there are subtle differences.

1. Government regulation
2. Technology
3. Changing client loyalties
4. Shifting demographics
5. Increased competition

So, in 2016 what's keeping Accountants awake at night?

There has been a major shift in the highest business concern. *Declining compliance fee growth rates and profit margins* was the highest concern both in 2014 and 2015, but that has changed.

#1 Attracting new high value business clients

This is the new highest concern for accountants.

Attracting new high value business clients increased as a business concern by **54%** to secure the top position in 2016.

So, what are accountants doing to meet their top business concern, and attract high value clients?

71% of accountants believe that ALL their practice principals are motivated and focused on growth. The key next step is in taking action to achieve growth. **50%** of accountants Bstar spoke with believed major changes were required for their practices to grow, and accountants are not sure that they will succeed in taking this step.

There is considerable room for improvement. While **90%** of accountants Bstar spoke to believed they were their clients 'most trusted adviser', they are not leveraging this relationship effectively.

Retention of existing clients, and converting them to advisory clients, is seen as key to building an advice services practice.

Client retention and growth rates are key to every practice's future, and accountants were very confident in their performance in these areas in 2014 and 2015, but this confidence is in sharp decline.

Concern about the cloud is now low

Concern about the cloud is now at the lowest level it has ever been (down **33%**) and the lowest listed concern.

There are still issues about cloud based technologies, but it is now part of everyday business. Practices have made their decisions - to adopt, embrace or avoid cloud based technology. They are managing the risks, and enjoying the convenience of mobile access to information.

Accountants accept that cloud technology will continue to impact compliance work and fees, and clients continue to expect efficiencies, including reduced fees, to be passed on.

One practice, who hasn't yet transitioned to advice services, has adopted an unusual strategy. They told Bstar they are not opposing clients going to the cloud, but they are not encouraging it. They know their compliance fee revenue will decline as clients migrate, and the practice is trying to gain time to work on generating new revenue streams.

DISRUPTION IS KEY

For many practices, change is a reaction to a crisis, or an external force.

New trend

The most striking new trend for 2016 is **high awareness but low action**. Accountants are now very aware of the developments affecting their industry and worried about the future. But awareness has not led to action. Accountants see the developments as 'threats' rather than opportunities. Only a minority are taking action to reform their practice for the future.

ALL Accountants said Growth Planning was important, NOW.
So, WHY do less than half have a Growth Plan?

ALL of the practices Bstar spoke to emphasised the need for growth - but there has been less planning for growth over the last 12 months.

Only **41%** have in place a detailed plan for their future growth, significantly fewer (from **55%**) than in 2015.

Accountants know that they need these plans and **86%** of accountants told Bstar they have a 'high' understanding of

growth planning – so why don't they have their own future growth plans?

"When faced with two equally tough choices, most people choose the third choice: not to choose."

Jarod Kintz, author

The most obvious evidence of this trend is in the low rate of action on the removal of the AFSL Accountant's Exemption for advising their clients on SMSF. While the change has been well communicated, and the licence application process has been open since 1 July 2013, many accountants have still not made a decision on their approach, or if they will continue to provide these services to clients from July 2016. As at 19 November 2015 only 204 licence applications had been lodged.

There have been improvements

Accountants have noticeably improved their own financial reporting. There has been a **17%** improvement (to **95%**) in the production of relevant, useful and timely financial reports. And the number of practices using outsourcing solutions to improve practice productivity has more than doubled to **41%**.

Needs

This Report highlights over **65 key advisory needs statistics of accountants**. Here are some highlights:

- **81%** of accountants still lack confidence in their ability to deliver advice services;
- **62%** of accountants are allocating a part of their working week to planning;
- Only **5%** of accountants believe their practice is ready for sale, a decrease of **15%**.

Why DON'T 3 in 4 practices have a Succession Plan?

Accountants are not prioritising succession because many are not intending to retire anytime soon.

Advice Practice of the Future

Most accounting practices don't know enough about themselves, and their practice. They don't have a clear understanding of what they can offer, who their ideal client is, and how much to charge. Before accountants are ready to introduce Advice Services, they need to do their homework. This means understanding their client base, and having a clearly defined service package for each client segment.

Only **32%** of accountants surveyed have segmented their client base to identify future growth opportunities (down from **55%** in 2015).

By segmenting their client base, accountants can assess the potential for growth. Once this is confirmed, the opportunity is to introduce and grow leveraged advice services in their practice.

Independent advice and support for practice planning results in higher successful implementation rates.

Accountants agree: there has been an increase of **39%** in the number of accountants (to **57%**) that now have a trusted practice adviser.

The 5 key phases to transition from a compliance based practice and build an Advice Practice are:

1. Disrupt
2. Transition
3. Leverage
4. Protect and Grow
5. Specialise

Successful advisory practices are managing the 5 phases of transition to an Advice Practice by implementing strategies which are listed in *Part 2* of the Report.

Know when you get there

In Bstar's experience, practices who can answer the following questions, simply and directly, have usually planned well. They are able to supply the advice services their clients want.

Check your preparedness for Advice Services -
can you answer clients when they ask:

"What do you do?"

"How much is it going to cost me?"

There are clear opportunities for accounting practices to transition to an Advice Practice – tailored to SMEs' identified needs.

What are 'Advice Services'?

Bstar can see clear opportunities for accountants to fill 3 distinct advisory roles:

- **Tax Planner**
- **Business Adviser**
- **Wealth And Risk Co-Ordinator**

What does an Advice Practice look like?

Revenue mix:

Minimum 40% revenue generated from advice services.

Leverage all the practice resources:

Aim for 60% - 80% of all advice services delivered by professional staff/future leaders.

Successful advisory practices are introducing and growing leveraged advice services. This year's Report discusses practical examples and includes:

- An advice services menu for a medium size client segment;
- An advice services implementation model that limits partner/director time to strategic advice only.

The Report also features an *Advice Practice Checklist*, so practices can assess how well they are positioned for leveraged advice services.

Growth Opportunities

Bstar has identified 4 growth opportunities for Advice Practices, to assist with meeting accountants' number 1 business concern - how to attract new high value business clients to their practice. These are:

1. Business Succession Planning
2. Medical Specialist Industry Specialisation
3. Banking and Finance Solutions
4. Predictive Advice

Business Succession Planning

Bstar has been conducting ongoing research on SME needs and concerns. Bstar has identified succession planning as the second highest SME business concern. But, more importantly, Bstar's research showed that this concern has escalated sharply for SMEs. It has moved from **LOW** to **HIGH** need to act.

Despite this need:

- **78%** of owners did not have a formal succession plan;
- **41%** have no understanding of succession planning;
- **4 out of 10** business owners don't know who to turn to for advice on how to improve their business - particularly financial measures and strategic planning.

SMEs' clear need for succession planning is a massive growth opportunity for advice services. Advice Practices can work with their clients to meet their succession and associated needs, such as preparing their businesses for sale and succession.

Industry Specialisation - Medical Specialists

Accountants are looking for ways to attract new high value business clients - Industry Specialisation is a key solution. Accountants are of the view that Medical Specialists are an ideal client for their practice. Bstar has responded by creating a Medical Specialists Industry Specialisation Package, with a dedicated Research Report scheduled for release in 2016.

Here are 3 ways specialist knowledge and experience can be used to attract and retain ideal clients like Medical Specialists in a highly competitive market (expanded on in Part 3).

1. Research Reports to secure an introduction;
2. Needs Assessments to build personal relationship trust;
3. Practice Goodwill Valuation Model to win over new clients.

Banking and Finance Solutions

Overwhelmingly, accountants said that it was important to their clients that they knew and understood banking and finance solutions. Accountants already regularly deal with finance brokers, lenders and banks on behalf of their clients. A majority (**63%**) told Bstar that banking and finance solutions were a core part of their existing advice services.

There is an opportunity for Advice Practices to grow their services by incorporating banking and finance solutions into their client advisory packages.

3 out of 4 accountants believed that accountants should offer a banking or lending solution as part of Advice Services.

Predictive Advice

In the professional service sectors the landscape is changing. Accountants are already aware of the impact of cloud based accounting and compliance technologies on their practice. They agree that these technologies, by accessing real time business information, have changed the way professional advice is provided to their clients.

In this year's Report, Bstar's CEO provides an expert opinion on why real time information will be superseded by predictive information and suggests two ways that Advice Practices can take advantage of this trend.

Professional Associations and Government

Professional Associations understand the opportunity for their members to be the leaders in advice services, but motivating their members is challenging!

The Report provides a snapshot on what each association is doing to support their members to transition to an Advice Practice and highlights a real opportunity for Professional Associations and Government to work together to recognise and reward accountants that are investing in the development of their advice services skillsets.

Way Forward

Overwhelmingly, Bstar believes there are growth opportunities for Advice Practices. Bstar encourages accountants to use this year's Report to refocus their efforts for 2016. The Report can be used to **enhance internal product trust** within a practice, particularly for leveraged advice services.

The Report's conclusion includes 3 recommendations for ALL accountants to consider as they transition to an Advice Practice:

1. **Take the next step on the Transition Pathway;**
2. **Invest in developing advice service skillsets;**
3. **Learn from others' successes and failures.**



Part 1 | Threats, Concerns and Needs

What's changed since 2015?

Last year, the Bstar Accountants Research Report discussed the top 5 strategic threats facing the accounting profession in 2015:

1. Government regulation
2. Technology
3. Changing client loyalties
4. Shifting demographics
5. Increased competition

What's changed? These strategic threats are still present, and those listed by accountants remain unchanged, however there are subtle differences.

Government Regulation



2015 THREAT

Less reliance on accountants as the primary communicator of tax and financial information.

Accountants are still concerned about the Australian Tax Office (ATO) aim to displace tax agents, and deal directly with tax payers. Compliance work in this area is in sharp decline.

There is a growing consensus amongst accountants that the ATO can achieve its aims for personal tax returns, and that the ATO is making progress year on year. Accountants continue to be worried by the ATO's continuing push to shorten communication lines with tax payers. Of particular concern is that tax payers may not be aware of, or understand, that there are alternatives to the standard ATO approach.

Tax planning is one of the three key advice services provided by accountants, but increasingly, tax payers are not seeing an accountant and not seeking advice.

However, in the area of Standardised Business Reporting, there is increasing scepticism whether the ATO can deliver on its ambitious plans. Most accountants are yet to be convinced that this aim is achievable for business reporting – there are just too many variables and possible differences between businesses.

In Australia, the removal of the AFSL Accountant's Exemption from July 2016 for advising clients on SMSF is

well known. With the SMSF sector expected to continue to grow, accountants have little time remaining to decide their approach. They need a clear plan – but many have still not decided whether to cease these services, obtain their own licence, or become part of a licensed group.

Technology



2015 THREAT

Increased client awareness of the use of technology and outsourcing means clients now expect lower compliance fees.

There has been a change - accountants advised Bstar they expect growth in Management Accounting (MA) work. Assisted by technology and streamlined processes, accountants are planning to take back MA work from consultants (such as bookkeepers or specialised services) and make the MA work profitable. Careful use of outsourcing or offshoring can reduce costs and protect margins. A key concern of accountants is attracting new business clients (see *Top Business Concerns* section) and many agree that they can use MA work to build a trusted relationship which can lead to other advice services work.

3 Popular Digital Strategies for Accountants

- Grow the Management Accounting Division – use it to attract and build trusting relationships with business clients.
- Migrate clients to cloud based compliance and accounting technologies.
- Outsource (or offshore) low margin work (such as compliance) to reduce costs.

Going against this trend, one practice told Bstar that they are not encouraging clients to go to the cloud. This particular practice, who hasn't yet transitioned to advice services, has adopted an unusual strategy. The practice is trying to retain compliance revenue, while it is working on generating new revenue streams. They know their compliance fee revenue will decline as clients migrate to cloud technology. So, their approach is to support, but not encourage, clients to adopt cloud technology. The practice is now developing plans to change to an Advice Practice.



2015 THREAT

Clients becoming more sophisticated in using GLS technology and diagnostic apps to 'self-assess' their business performance.

Changing Client Loyalties

Accountants are telling Bstar that client loyalties cannot be taken for granted – loyalty is becoming increasingly short term, and subject to change. As clients become more reliant on technology, they look for providers who can provide assistance and advice on their chosen technology and will change adviser to meet their needs.

As in 2015, clients are still expecting that efficiency gains in compliance and other routine work will be passed on as lower fees. Bstar discusses the implications of this under *New Strategic Threats*.

Bstar's 2015 Small Business Research Report showed that business owners are interested in planning, but lack the information to do so. Business owners were particularly interested in knowing the present value of their business, and how to increase that value (**8 in 10** owners). Overwhelmingly, **89%** of owners wanted to know how their business compared to industry averages, and benchmarks. Only **6 in 10** business owners have identified a trusted adviser – and business owners indicated that they were prepared to go to an adviser who could value and benchmark their business.

Shifting Demographics

Bstar's research with SMEs confirms that for business clients, succession has become one of the top 4 business concerns. More importantly, business owners now identify succession planning with an urgency – and a **high** need to act.

This is another area where there is little to no strategic planning by business owners. The majority of SME businesses remain heavily dependent on the owner - **58%** of those surveyed believed their business could not survive without them.

Despite this, few business owners had considered or taken any steps to provide for the effects of an accident or ill health:

- **74%** had no succession or buy/sell agreement in place; and
- **60%** had no business or key person insurance in place.

There are clear opportunities for advice services, where accountants can identify their clients' succession needs. However, the danger is that where the existing accountant does not identify the need, clients will seek a new 'expert' for these services. Without the opportunity to advise, or build a relationship with the new business leaders, the entire client relationship can easily be lost.

Increased Competition

Accountants are seeing increased competition for all types of work, and fee cost cutting to attract new clients, is on the increase.

International Trends

In late 2015, Bstar with one of its Alliance Partners was invited to present on "The Firm of the Future" at the LEA Global International Conference (held in Miami, FL, USA).

Grant Bloxham, Bstar's CEO, reported his observations on the trends from attending discussions with over 180 Managing Partners (each practice with \$20M minimum fee revenue).

"What was so interesting is that all of the medium sized accounting practices, whether in the USA or other countries, have very similar concerns to Australian practices. World-wide, compliance fee revenue is declining. There is general acceptance across each market that the future of advice lies in an integrated advisory model, linking advisory work with wealth management and banking solutions."

The most popular solution nominated was an online solution that links all of a client's needs, and positions the accountant as the core focal point.

The major threat to this solution is from technology providers, who may partner with third parties to deliver automated solutions which eliminate the accountant.

It was also surprising to see how far Australia is ahead of the USA in adopting cloud compliance technologies – this may provide us with an advantage in developing these client based solutions.

The international firms' first priority is retaining clients – there is intense competition for their client's 'share of wallet' from corporate wealth management and large insurance companies. Australia hasn't witnessed that level of competition yet."



New Strategic Threats

What are the new emerging strategic threats?

Could compliance work become a loss leader?

Technology is leading to clients becoming more self-reliant and reducing their reliance on accountants. It is driving the ongoing decline in compliance work and fees. There seems to be general acceptance within the industry now that compliance fee growth rates and profit margins will continue to decline.

Business advice services become strategically more attractive in this environment. They are outside the scope of the Corporations Act, and are highly profitable.



Extract from a Bstar Alliance Partner Social Media ad.

A trend is emerging as accountants respond to increased competition and concerns about changing client loyalties. Existing clients are being valued, based on their lifetime value to the practice, and compliance fees are being discounted to retain target or 'ideal' clients.

Retention of existing clients, and converting them to advisory clients, is seen as key to building an advice services practice.

This builds on the trend, which was explained in last year's report, where practices are developing client service packages that include compliance and advice services components, with fixed fee structures that highlight low compliance fee components.

Package options are designed for different client segments, and are able to be paid in affordable, easy to manage monthly instalments. Clients appreciate the certainty in the packaged fees, and practices have a clear cash flow and predetermined stream of advisory work throughout the year.

In a market where 'ideal' business clients are in high demand, and as competition increases, some practices are discounting compliance fees, even below cost.

Reports vary as to whether this is a strategic choice - to use compliance work as a loss leader when attracting profitable advisory work - or merely a reaction to the increased competition.

General Ledger System (GLS) Software Providers are building close relationship with SMEs

The close, and growing relationships between SMEs and GLS software providers are a threat to the traditional role of accountants as the business owner's most trusted adviser.

Bstar predicts that there will be a steady increase in the amount of direct contact between SMEs and these software providers. These relationships are traditionally 'sticky' and the software providers are investing considerable time and resources to increase their clients' loyalty.

The major GLS software providers are increasingly looking to form alliances with third parties, to add new revenue streams. By building relationships with other commercial partners, they aim to increase their software features, help SMEs with their key needs and make the software increasingly essential to their client's day-to-day business. Each feature is intended to embed the software, making it an essential part of the client's business. By making it ever harder to shift to a competitor, providers aim to increase client loyalty, and retain clients.

These new features are encroaching on territory that was previously held by accountants, and the effect will be to cut accountants' revenue for these services. Bstar highlights some examples below.

GLS software providers are providing new services, cutting across accountants services and revenue, for example:

- Including benchmarking information in existing packages (often for no additional cost) so clients can 'self-assess' their business;
- Partnering with a major Australian bank on a pre-finance application – clients can complete this exercise themselves using real time data from the system – reducing the need for input from an accountant.

How are Accountants Reacting?

Accountants are now very aware of the developments affecting their industry and worried about the future.

The need to transition to a new business model is identified, and present. Half of all the practices surveyed believe that major change is required to achieve future growth.

Business advice services are strategically more important in the current environment, as they provide opportunities for growth. Accountants have opportunities to grow into 3 roles through advice services (see *What are 'Advice Services'?*), but re-designing a practice takes disciplined planning.

The decline in existing work and fees is already happening. Unlike the removal of the SMSF Exemption, there is no external trigger, or deadline. Consequently, inertia will lead to a slow and gradual decline in these types of fees.

"This is the way the world ends,
not with a bang, but a whimper."

T.S. Eliot

But awareness has not led to action. Accountants see the developments as "threats" rather than opportunities. Only a minority are taking action to reform their practice for the future. Accountants have to take the initiative – there is no deadline to prompt them into action.

There have been the following improvements:

62% of practices are now allocating part of their working week to practice planning – up from **42%** in 2015.

Accountants have noticeably improved their own financial reporting. There has been a **17%** improvement (to **95%**) in the production of relevant, useful and timely financial reports. There is also a material increase in practices using outsourcing solutions to improve practice productivity – more than doubling to **41%**.

But while almost all accountants are now on top of their practice financial data, they are not using the increased planning time for strategic planning or change.

ALL of the practices Bstar spoke to emphasised the need for growth – but there has been less planning for growth over the last 12 months. Less than 1 in 3 practices have made a detailed plan for growth (**31%**, down from **55%** in 2015).

There is also less attention to identifying and managing key practice risks (such as staff and client retention) than in 2015.

Across the board, over the last 12 months, Bstar has seen a reduction in disciplined, formal practice planning:

- Less than 1 in 5 (only **18%**) had a social media strategy for the practice (sharply down from **39%** in 2015);
- Only **27%** knew how their practice KPIs compared to industry benchmarks (down from **39%** in 2015);
- Only **32%** have segmented their client database for future growth opportunities (down from **55%** in 2015);
- Only **5%** regularly survey their clients about their service offering (even fewer than **6%** in 2015);
- Only **18%** had strategies for staff attraction, retention and motivation (sharply down from **31%** in 2015);
- Only **18%** had a succession plan in place (down from **31%** in 2015).

What are 'Advice Services'?

Bstar can see clear opportunities for accountants to fill 3 distinct advisory roles:

- **Tax Planner**
To assist clients to minimise their tax.
- **Business Adviser**
To help protect, grow and optimise the client's business value.
- **Wealth and Risk Co-ordinator**
To co-ordinate (whether directly or with trusted experts) the client's personal wealth, superannuation and risks (personal and business).

Strongest 2016 Trend
HIGH AWARENESS but LOW ACTION

Head in the sand?

Bstar believes that a key theme has become apparent over the last 12 months – **High Awareness but Low Action**.

Accountants know about the challenges and problems facing their practice, and they have known about them for some time.

Despite this awareness, despite the many articles, seminars and courses recommending change, despite the efforts of the Professional Associations, only a small number have taken action to change their business model.

Knowing that change is necessary has not translated into action to grow – instead, accountants are focussing on managing the known, controllable aspects of the practice – cost management, financial reporting, and looking for efficiency gains in their existing business.

Evidence of this trend can be seen in the slow reaction by accountants to the removal of the AFSL Accountants' Exemption (see below for details).

Limited AFS Licence

In Australia, a key change in 2016 will be the removal of the AFSL Accountants' Exemption for advising their clients on SMSF. After 30 June 2016 accountants must have a licence or become an authorised representative of a licensed firm.

While the change has been well communicated, and the licence application process has been open since 1 July 2013, many accountants have still not made a decision on their approach, or if they will continue to provide these services to clients from July 2016.

More onerous licensing requirements apply for applications after 30 June 2016 – Recognised accountants will need to demonstrate at least 3 years relevant experience for a licence.

Key Numbers:

- 204 – Applications for limited AFSL lodged*
- 78 – Limited AFSLs approved*
- 101 – Licence applications rejected or withdrawn*
- 1 March 2016 – applications made after this date probably won't be assessed by ASIC before 30 June – leaving a 'gap' until approval.

(*statistics as at 19 November 2015)

Accountants seem to be reacting to increased competition by getting their own house in order. This can be effective. But, without growth, this is a limited, short term strategy.

In general, accountants are not working on growing new revenue streams, or introducing new services; they are not transitioning to an advisory business model.

Accountants are
'getting their own house in order'
but haven't planned for what to do next.

Bstar is still working through the reasons behind this trend. Based on Bstar's research (including research in other areas, such as with SMEs) Bstar suggests the following as probable causes for this trend:

• Accountants are SMEs too

The accounting practices in Bstar's survey are SMEs – and just like other SMEs they are often too close to their business, spending too much time running their business, to step back and plan how to improve and change it.

Introducing new services can be risky and takes courage – and harder to justify when there is already pressure due to the tough economic conditions.

• Lack of experience in successful change projects

Bstar believes that many accountants don't know how to re-engineer their practice, and move to a new model. They don't have real-life project management experience to implement the necessary changes and achieve success. Many have actual experience of failed attempts to change their practice. Internal (and often external) support is essential for major change projects to succeed.

• Accountants are conservative

The typical strengths of accountants is to understand their key financial indicators and monitor and manage them. It is to understand risk, and be risk adverse. Change management is typically not a core strength of accountants, and is usually outside their comfort zone.

Accountants who have been successfully in practice for more than 25 years have identified that they have little appetite for re-engineering their practice. They are handing over to future leaders in their practices or if this is not available, actively seeking other options. Significantly, there has been increased exits from the industry – retirements, sales to institutions or groups, mergers with other practices – rather than fundamental operational changes.

• Inertia is a powerful force against change!

The stereotypical accountant is not adventurous or a risk taker, or early adopter. For many practices, the approach has been to take a 'wait and see' approach to new models such as advice services, social media and cloud technology.

“When faced with two equally tough choices, most people choose the third choice: not to choose.”

Jarod Kintz, author

Once taken, this ‘waiting’ approach is easy, and comfortable. Any positive action requires effort, time and usually impacts revenue – confirming that inertia is one of the most powerful forces in day to day business operations. Bstar observes many practices that wait, until a change is more or less forced upon them.

For many practices, disruption is key to starting the change process.

This disruption can be caused by the departure of key staff, the move of key clients to a competitor. External forces such as the economy, or legislative changes can also impact key work areas such as SMSF advice, and force disruption.

DISRUPTION IS KEY

For many practices, change is a reaction to a crisis, or an external force.

Accountants who want to stay in their own practice and thrive must overcome their reluctance to change, and replace declining compliance revenue with revenue from new services.

Bstar has used its continuing research to highlight opportunities for new revenue streams in *Part 3, Growth Opportunities*.

Top Business Concerns

#1

Attracting new high value business clients

is the new highest business concern for accountants.

What's changed, from Bstar's 2015 Accountants Research Report?

There has been a shift in the business concerns – practices are now hungry for growth. Currently, the highest concern is how to attract new high value business clients. This concern has increased by **54%** over the past 12 months.

Concern about partner/principal alignment has declined by nearly half and is no longer a major concern. 71% believe that ALL their practice principals are motivated and focused on growth. The key next step is in taking action.

What are accountants doing to meet their top business concern, and attract high value clients? Not enough!

Most accountants are not particularly concerned about having a formal marketing plan – this attracted only half the level of concern as attracting new business clients (and less than in 2015).

Only **18%** of accounting practices have a formal social media strategy to attract new clients. Using social media marketing tools is another proven, cost effective strategy to attract new clients.

There is considerable room for improvement. While **90%** of accountants Bstar spoke with believed they were their clients 'most trusted adviser', they are not leveraging this relationship effectively. Only **50%** of accountants believe their client service offering is better than their competitors.

Before a client will engage accountants to provide advice services, their client must trust them and their practice.

Even more importantly, accountants don't believe they have the right relationship with their existing business clients - only **64%** believed that they had enough relationship and product trust with their business clients to grow their advice services. This is a sharp **18%** reduction (from **81%**) in 2015.

This underlines the highest business concern – as accountants don't believe they can grow advice services

with existing clients, they will clearly lack confidence in attracting new business clients.

An obvious starting point would be to increase skills or resources – both their own and staff. This isn't happening. Bstar has witnessed a material reduction in skill development indicators:

- Only **55%** of recruitment, training and development plans were aligned to practice growth objectives (down from **67%**: 2015);
- Overall there was a **41%** reduction in professional development programs for professional staff (down from **64%**: 2015 to a very low **23%**);
- There was even **11%** reduction in accountant spending time on their own skills development – down to **87%**.

Getting their house in order

The picture is that right now, accounting practices are becoming more forward looking – they are focused on the performance of their business, and particularly on how to improve it.

The 2015 Report saw significant increases in concerns relating to practice succession, partner alignment and practice finance arrangements. Bstar predicted that accountants were ready to take action, particularly if retirement (or another type of succession) was approaching.

The evidence from accountants is that they have made some progress internally (what we have called "getting your house in order"). This is reflected in sharp reductions in all three of these concerns - partner alignment (down **49%**), practice finance (down **10%**) and generational succession (down **11%**).

62% of practices are now allocating part of their working week to practice planning – up noticeably from **42%** in 2015.

The improvement in internal planning is also signalled in the reductions in concerns around formal marketing plans (down **10%**) and practice premises (down **2%** to second lowest concern).

These internal improvements are welcome, and expected to lead to increased practice efficiency.

However, despite the majority of accountants now having a trusted adviser, the challenge remains whether practices can use this increased efficiency as a springboard to develop and generate fee growth or new revenue streams.

#2

Moving from #3 in both 2014 and 2015, **transitioning from a compliance to an advice service business model** is now the second highest business concerns.

And that transition hasn't happened yet - **50%** of accountants Bstar spoke with believed major changes were required for their practices to grow.

57% of all accountants now have a trusted practice adviser - sharply up from 39% in 2015.

All of the accountants Bstar spoke with regarded growth planning as important to their practice. But Bstar did not see evidence that this concern was being addressed.

Despite more than half of accountants now having identified a trusted adviser, Bstar's Needs Assessments indicate that there is less formal planning than in 2015. Less than half have made a detailed plan for growth (41%, down from 55% in 2015). Without planning, it is hard to see how there will be any fundamental change.

Accountants want to grow and improve their practice. They next step is to achieve it - and accountants are not sure that they will succeed in taking this step.

Confidence in advice services varies - **58%** of accountants believe they are 'ok' in offering advice services to their clients, while **33%** stated they are 'not so good'.

40% remains the benchmark advice services fee mix nominated by the majority of accountants, with a 3 - 5 year timeline to achieve this result.

#3

Declining fee growth rates and profit margins has slipped from #1 concern in 2015 to third - but is only marginally behind the concern about how to achieve an appropriate fee mix, between advice services and compliance.

The reduction in concern is supported by the evidence of increased financial management. Accountants are successfully managing their costs. Cash flow concerns have also reduced (down to #9 business concern). **65%** indicated that their cash flow was sufficient to fund their current and future lifestyle (an **8%** improvement from last year).

However, this remains a key concern, particularly as so few practices have successfully addressed how to grow fees or new/alternative revenue streams.

#4

Capacity and time constraints has slipped to the number 4 business concern for accountants, falling from second in 2015. As accountants are reporting progress in addressing this concern, this is not surprising.

Last year technology and outsourcing were nominated as the two most likely strategies to improve practice productivity and create capacity for advice services. This is now being put in place.

48% of accountants believe they are utilising technology effectively to improve practice efficiency, and there has been a marked increase in the use of outsourcing solutions - up from **19%** 2015 to **41%** in 2016.

Practices are not particularly concerned about competition from large multi-disciplinary practices, or their greater resources. In 2015 this was the lowest ranked concern, and while this concern has increased slightly in 2016, it remains low.

Concern about the quality of professional advice remained the fourth lowest concern, unchanged from 2015.

Cloud based technologies are now the lowest listed business concern.

The 'cloud' is now mainstream, part of everyday business. There are still issues about cloud based technologies, such as privacy and security concerns, but accountants now believe they are aware of the issues and are managing them.

Practices have made their decisions - to adopt, embrace or avoid cloud based technology - and they are managing the risks, and enjoying the convenience of mobile access to information. Concern about the cloud is now at the lowest level it has ever been (down **33%**) and the lowest listed concern.

However, while practices may be becoming more efficient, the gains produced are expected to be short term.

Without formal strategic or growth planning, it is hard to see how practices will address these top three business concerns. For more details, see the discussion of **High Awareness but Low Action** in the section '*How are Accountants Reacting?*'.

Snapshot of Business Concerns

Bstar's *Needs Assessment Process* was the primary tool used in Bstar's face-to-face interviews with accountants.

It contains a comprehensive list of key business concerns and accountants were asked to **rank** both their **concerns** and their **need to act**.

The table below provides a summary of the business concerns, ranked in order of highest to lowest concern.

What are accountants most concerned about?*

1. Attracting High Value Business Clients;
2. Services Fee Mix – Compliance and Advisory;
3. Fee Growth and Profit Returns;
4. Capacity and Time Constraints.

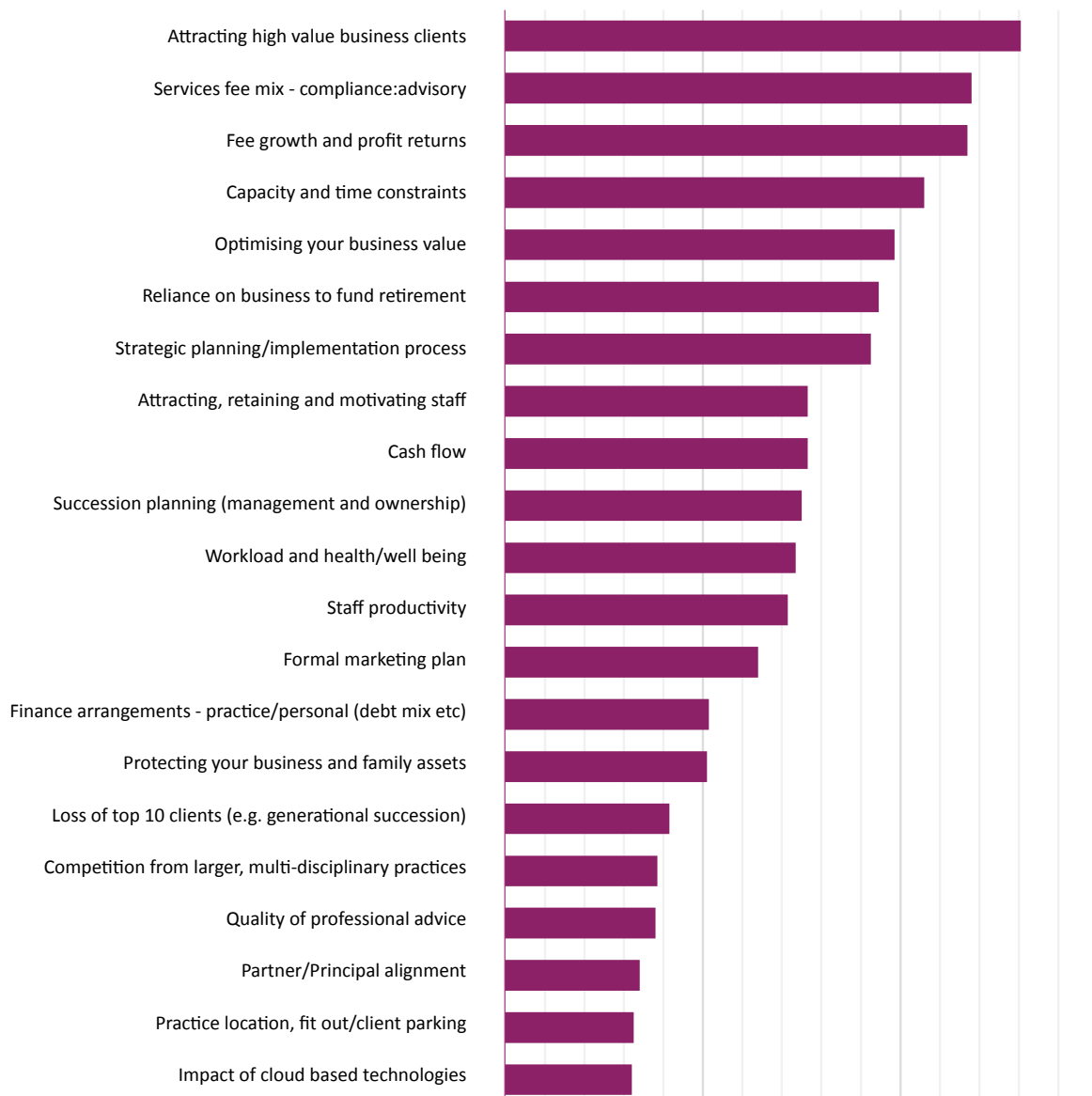
**Top four concerns.*

What are accountants least concerned about?*

1. Impact of Cloud Based Technology;
2. Practice Premises – Location, Fit Out & Parking;
3. Partner & Principal Alignment;
4. Quality of Professional Advice.

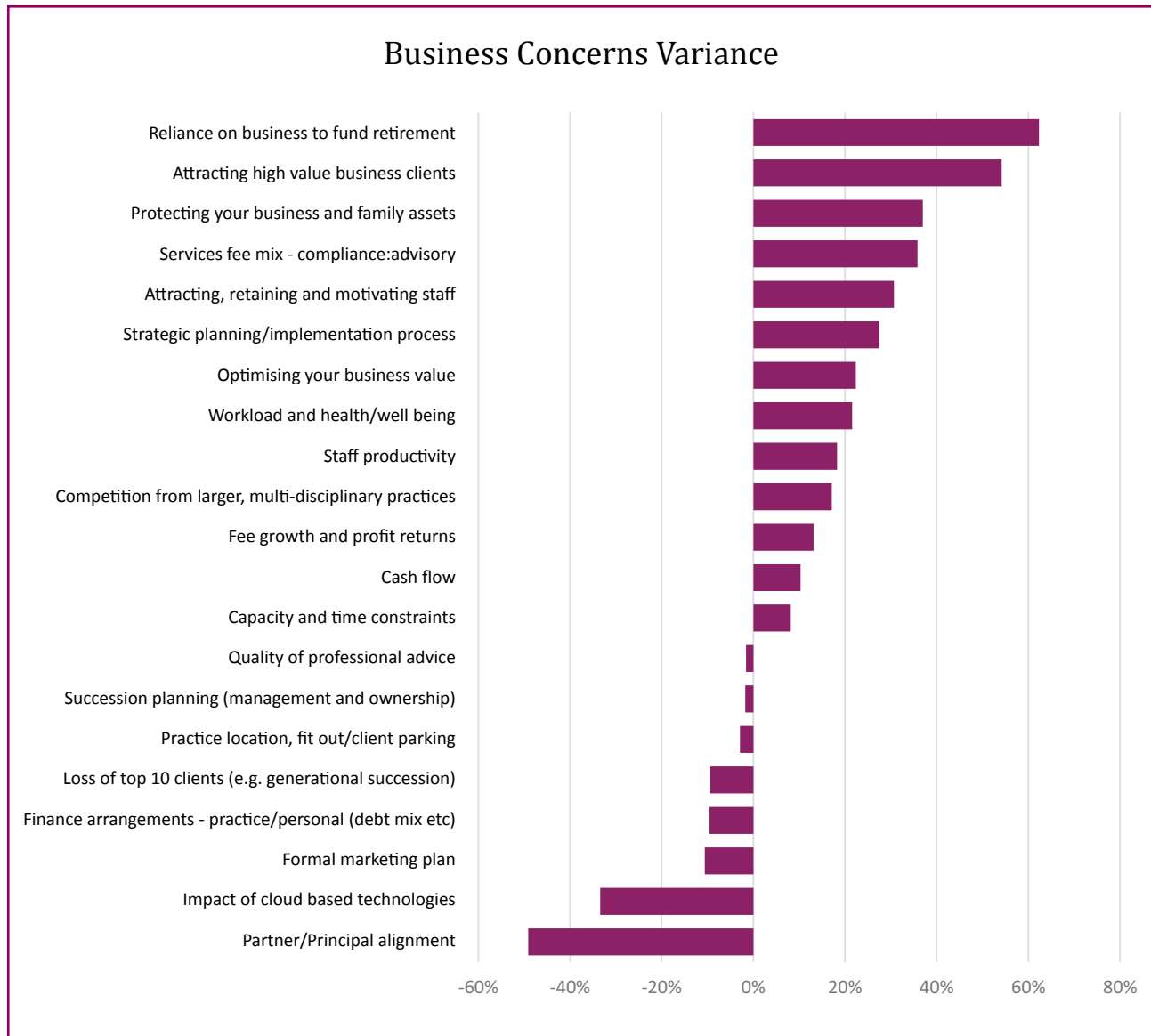
**Lowest four concerns.*

Business Concerns* (The size of the bar signifies the relative importance.)



What are the trends in accountant's business concerns?

The following trend graph highlights the movement in business concerns since the last reporting period.



The highest increases in business concerns:

1. Reliance on the business to fund retirement (↑ 62%)
2. Attracting high value business clients (↑ 54%)
3. Protecting your business and family assets (↑ 37%)
4. Services fee mix – compliance: advisory (↑ 36%)

The business concerns that have decreased:

1. Partner & principal alignment (↓ 49%)
2. The impact of cloud technologies (↓ 33%)
3. Formal marketing plan (↓ 11%)
4. Finance arrangements – practice/personal (↓ 10%)

How do Accountants see themselves?

86% of accountants Bstar surveyed are in the 'growing' phase of their practice lifecycle, and all accountants advised Bstar that growth planning was important to their practice, NOW.

Accountants are informing Bstar that they need more industry information, particularly to understand how their practice compares to benchmark, and how to improve their key success factors.

Compared with last year, there is more uncertainty and negativity across almost all indicators. Accountants are saying that they are not sure how their practice compares with the industry average, or believe they don't meet industry averages.

Perhaps because they lack reliable benchmarking information, accountants are becoming more critical about their own practices.

81% of Accountants still lack confidence in their ability to deliver advice services.

There was a welcome **6%** increase in those who believed they were 'top 20%' (from 9% to 14%).

But this was overwhelmed by the majority (**57%**), who now grade themselves as 'not so good', a sharp increase from **33%** in 2015.

24% believe they are 'OK', (less than half the **58%** equivalent from 2015).

The indicators suggest that practices are feeling the pinch – and finding it increasingly difficult to maintain profit levels:

- In 2015, **90%** of practices were positive about write offs to income. Now the majority (**62%**) feel they are 'okay' in this area, or **24%** 'not so good'. Only **10%** believe that their practice is above benchmark in this area, (sharply less than 2015: **42%**).
- Accountants believe that professional salary costs are an increasing drag on income – **29%** believe they are 'not so good' (2015: **15%**), mirrored by a decline to **43%** in the comfortable 'we're okay' response.
- Profitability per partner/principal is also under pressure. The combined 'top 20%/okay' categories declined sharply to **38%** (from 2015: **61%**). Again, 1 in 4 accountants say they are 'unsure' how they are performing, while a steady **38%** put themselves in the 'not so good' category.

Client retention and growth rates are key to every practice's future (and the #3 top business concern).

In 2014 and 2015, accountants were very confident in their performance in these areas, but this confidence is in sharp decline.

In 2016, **41%** of accountants surveyed still believe they are in the top 20 percent for client retention and growth rates. However, this is sharply down from **55%** in 2015.

Pessimism has quadrupled (2016: **36%** compared with 2015: **9%**). Accountants' view that they are 'not so good' has doubled to **18%** and a further **18%** are 'unsure' (2015: none).

It is consistent with accountants' high levels of concern with (#2) Services Fee Mix (Compliance : Advisory) and (#3) Fee Growth and Profit Returns.

Given the challenging operating environment, it is not surprising that practice growth and succession planning remain important to accountants.

Growth and Succession Planning

Given the new challenges and strategic threats facing all practices, Bstar expected that growth planning would become more important.

ALL Accountants said growth planning was important, NOW.

So, WHY do less than half have a Growth Plan?

While all of the accountants Bstar spoke with stated that growth planning was needed 'now', surprisingly, Bstar's survey showed a lower level of strategic and growth planning than last year.

Only **41%** have in place a detailed plan for their future growth, significantly fewer (from **55%**) than in 2015.

Accountants know that they need these plans and **86%** of accountants explained to Bstar they have a 'high' understanding of growth planning – so why don't they have their own future growth plans?

Bstar believes that this is further evidence of the **High Awareness – Low Action** trend that was discussed in the section *How are Accountants Reacting*.

An overwhelming majority of accountants (**81%**) told Bstar that they have a high degree of understanding of succession planning.

Despite this, only **19%** have a Succession Plan, significantly less than the **31%** in 2015 who had a plan in place. The explanation appears to be that accountants are not prioritising succession because many not intending to retire anytime soon.

Currently, when rating how important succession planning is to their practice, accountants are equally spread across the short (now to 1 year) medium (1-5 years) and long term (5+ Years). This is a significant shift from 2015 when **44%** advised Bstar that succession planning was important to their practice 'now' to 1 year.

Consistent with this trend, when asked if their practice succession plan met their future needs, accountants were again spread almost equally across each across each category – **38%**: 'yes', **33%**: 'no' and **29%**: 'unsure'.

In recent years, a significant number of accountants have left the profession – finding purchasers for practices, internal successors or closing practices.

Only **5%** of accountants are planning to leave soon, the remaining **95%** are in the 'Growing' or 'Beginning' phases. This strongly correlated to the number of practices that were ready for sale – only **5%**, sharply down from **26%** in 2015.

Staff Strategies

While each has their own individual career path, it is clear that the accountants Bstar is speaking to will be practising for the medium to long term.

Attracting, retaining and motivating staff is a medium to high business concern for accountants. Staff productivity remains a mid-range concern.

The good news is that practices have the essentials covered – **90%** have up-to-date employment contracts and agreements in place with their staff.

However, in general, most practices haven't done any more. Only **1 in 5** practices had formal strategies in place to attract, retain and motivate their staff – a noticeable decline from almost **1 in 3** practices in 2015.

Practices may be recognising that they need to do more in this area – **2 in 3** practices saw opportunities to expand the role of the Practice Manager – more than doubling 2015's response.

Committed and skilled staff are an integral part of a successful advice services practice. One way of improving staff engagement is to introduce performance rewards that create incentives for the right behaviour. However, **2 in 3** practices don't offer their staff performance based rewards, unchanged from 2015.

Accountants can improve staff attraction, retention and motivation by understanding key staff motivators and de-motivators. The best place to start is by asking staff – a staff survey can help to identify gaps in staff understanding and alignment, and what needs attention.

Targeted communication, whether about strategies and business objectives, or feedback about staff performance, are recognised ways of as improving staff motivation and retention.

Business Value Gap

Practice values are critical to many accountants, given that only **1 in 3** have built sufficient wealth outside their business to help fund their retirement.

Business capitalisation rates are causing considerable concern, and greater concern than the previous year.

Only **48%** know what practices are currently selling for. While most are not looking to sell at present, accountants are worried - **71%** were unsure how their practice's cap rate compared to industry averages, more than double the 33% in last year's survey.

None of the practices Bstar spoke with believed they were top 20% (2015: **13%**) and only **10%** believed they were 'okay' (2015: **42%**).

Only 1 in 3 accountants were confident that a sale of their practice would meet their expectations (2015: **45%**).

Even fewer (**29%**) believe the sale of their practice will fund their retirement or next business venture – but uncertainty has nearly doubled, to **43%** (up from **23%** in 2015).

Lifestyle

The majority of accountants are happy, healthy and enjoy their work. Generally, this was an area that showed improvement from last year.

95% enjoy their work, and **91%** spend time doing the things they enjoy, an increase from **88%** last year. However work commitments and pressures have seen a further decline in attention to overall diet and overall health, down **6%**, to **73%**. This is now a three year survey trend – decreasing from **79%** in 2015 and **92%** in 2014.

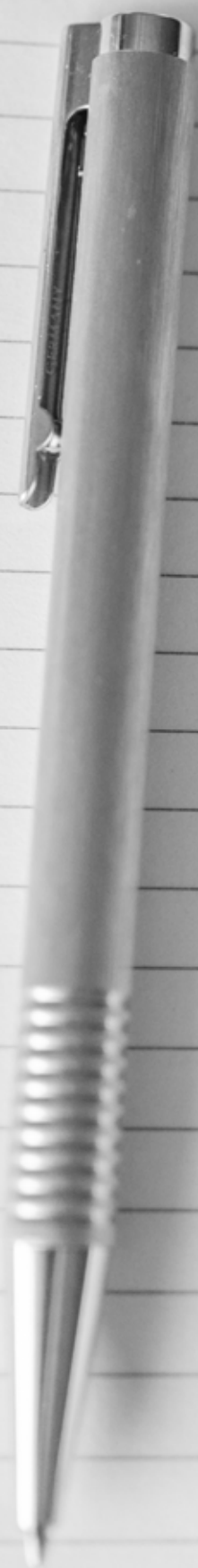
Personal Planning

There has been a noticeable decline in arrangements in the event of ill health:

- only **1 in 4** had up-to-date and current partnership or shareholder agreements in place;
- **40%** of accountants have buy/sell agreements or succession plans to take effect in the event of ill health – this is a major decline from **67%** in 2015;
- while **68%** have business and key person insurance in place;
- the majority (**64%**) hadn't considered capital gains tax risk on death or TPD for life insurance policies;
- **43%** don't have personal wealth management strategy;
- only **68%** have adequate key person insurance.

Estate Planning

- **55%** of accountants don't have an estate plan;
- **23%** don't have an up to date Will;
- **32%** don't have an enduring power of attorney.



Part 2 | Advice Practice of the Future

Know thyself first!

Most accounting practices don't know enough about themselves, and their practice. They don't have a clear understanding of what they can offer, who their ideal client is, and how much to charge.

Before accountants are ready to provide Advice Services, they need to do their homework and planning. This means understanding their client base, and having a clearly defined service package for each client segment. Segmentation can be as simple as dividing clients into 3 segments - Small, Medium and Large clients.

The majority of practices don't know or use even simple information about their existing clients, and they haven't attempted to segment their client base.

It is critical that accountants can engage clients by clearly explaining their practice's advice services offering.

Accountants are not prepared, and can't answer clients when they ask:

"What do you do?"

"How much is it going to cost me?"

In Bstar's experience, practices who can answer these questions simply and directly, have usually planned well. They are able to supply the advice services their clients want.

Know your clients

Not all clients have the same needs, or the same ability to pay. By knowing about their existing client base, and grouping them into segments, accountants can tailor their advice services to each segment's needs and budget.

When dealing with a client (existing or potential), accountants can identify which segment that client belongs to, by asking a few, key business questions (e.g. number of staff, turnover, etc.). The accountant can then talk to that client about solutions for their needs, matching the advice services package to that client's segment. This means the conversation will be appropriate to that client, their needs and their budget.

Know what you do

Accountants should be prepared to describe what they can do for each client segment. It should be a statement that is simple, clear and direct. It should differentiate their practice, and its services, from other accountants. It should also be clearly relevant to the client – possibly even making it clear that they are the practice's ideal client.

It should be short, and open, to allow the interested client to ask "how do you do that?"

When an accountant can easily have this conversation with an existing or potential client (from any segment) then they know they have transitioned to an Advice Practice.

Know your fee structure

Advice services packages should be tailored, not only to client's needs, but also to their budgets. Understanding this and being able to supply costs upfront, gives clients certainty about their commitment. Consider payment by regular instalments.

Also consider the previously discussed strategy of bundling advice and compliance fees, to assist in retaining clients, and increasing the uptake of advice services. This allows compliance fees, to be kept low, or cut, when included in a package with other services. Clients are able to easily review and compare compliance fees. Bundled fees can be spread in regular instalments to meet client's cash flow, and work flow smoothed.



"What do you do?"

"We advise private and family businesses on how they can grow the value of their business, so they can achieve financial independence and secure their financial future.

For our medium sized business clients, we provide tax and accounting services. Our primary focus is to improve your profitability and business value. This includes conducting a Business Value Assessment (BVA), benchmarking analysis, Board of Advice support, and an annual BVA so we can quantify the value added."

"How much is it going to cost me?"

"To provide these advisory services we charge \$2,000 per month. For the tax and accounting work, assuming we have all relevant and accurate information, the cost is \$3,000 per annum".

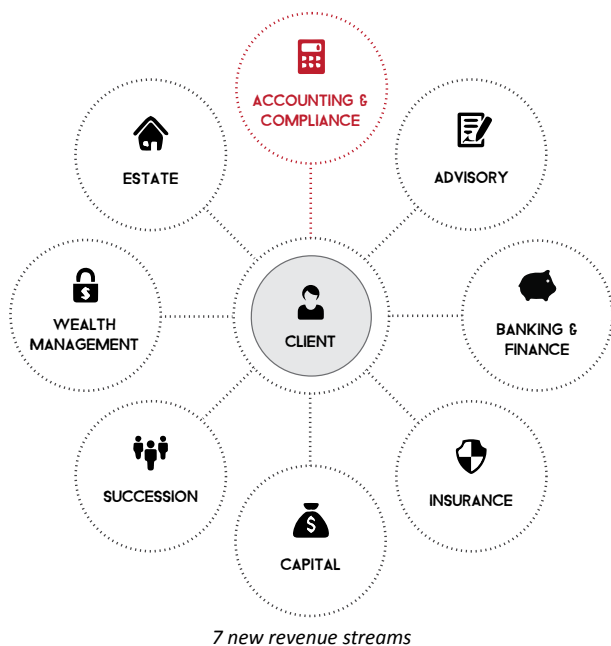
Opportunities – 7 Revenue Streams

There are clear opportunities for accounting practices to transition to an Advice Practice – with services tailored to SMEs' identified needs.

Accountants can generate growth for their practice simply by recognising two key growth opportunities within their existing client base.

Firstly, accountants need to better understand their existing accounting and compliance clients. Discovering these clients' other needs is key to generating 7 alternative advice services revenue streams.

Converting existing clients to new advisory clients is the perfect starting point. By leveraging the existing client relationship trust, accountants can ask about their key needs in other areas. Then by matching those needs to an advice solution, the practice gains an advisory client.



Secondly, recognise that your existing client base is the best source of finding a new client.

Genuine client referrals are the best source of organic growth. Encourage this growth by obtaining referrals from your existing, satisfied clients, after they receive your advice solutions. Ask if these clients can refer new 'ideal' clients who need the same advisory services.

What does an Advice Practice look like?

Revenue mix

Minimum 40% of fee revenue generated from advice services.

Leverage all the practice resources

60% - 80% of all advice services delivered by professional staff/future leaders.

Transition Pathway – Addressing the 5 Phases of Change

Accountants want to generate new revenue streams.

There are many opportunities to do so, but they need to offer new services.

To transition from a compliance based practice and build an Advice Practice, there are 5 key phases.

Phase 1 – Disrupt

Transition requires change! Accountants can 'disrupt' their practice, and use digital strategies to create new efficiencies and capacity.

The best suggestions for accounting practices are to:

- Grow their management accounting division;
- Migrate clients to cloud based accounting/compliances technologies;
- Outsource or offshore compliance and other low margin work to reduce costs and protect margins as the risks from fee cost cutting increases.

Phase 2 – Transition

Develop the practice's foundations to grow advice services.

In Bstar's experience, to succeed, accountants need to address 4 Practice Advice Essentials:

Alignment – secure partner alignment/creating a shared vision to treat advice services as a core service offering;

Engagement – enhance relationship and product trust and secure client engagements in advice services;

Specialisation – develop a service or industry specialisation to retain and attract 'ideal' clients;

Support – offer advisory support services such as Boards of Advice to clients and ensure there is support within the accountant's own practice.

Practice Advice Essentials

Accountants have been dealing with practice restructuring issues. Now they are hungry for growth. Their top concern is how to attract new business clients.

There is a practical framework to transition to an advice services business model.

In 2015 Bstar launched the Practice Advice Essentials Professional Development Course, to show accountants how to fast track that transition. By adopting 4 Practice Advice Essentials, accountants can redefine how they do business and completely change their revenue base.

Phase 3 – Leverage

Once accountants have established their technical foundations, they need to leverage all the practice resources. By developing and using the skills and strengths of all team members, productivity is greatly increased.

Accountants are already familiar with leveraging traditional compliance work and financial planning services, by using scalable processes. Accountants can leverage advice services by using the same approach.

The goal is to have **60% to 80%** of all advice services delivered by the practice's professional staff, not just partners.

Accountants can create 'leverage' in their practice by developing advice services skills of their entire team.

Trust the team to deliver the service components.

This approach re-engineers the delivery of advice services - it is far more than buying a profit or cash flow optimisation tool.

Administration and support staff can create capacity and maximise the efficiency of partners and key staff, by being trained to deliver components of services, particularly through the use of standard documents or templates.

This can be done by breaking down advice services into components. Next, responsibility for delivering each component of a service is allocated. The skill is in recognising each individual's different skills, and identifying who can best deliver particular components of a service. Identify any components which are best delivered by external experts.

Finally, make it scalable, by using the entire team's skills to deliver the service components.

Ensure support for the advice services team with a trusted team of external experts specialising in Banking, Financial Planning, Human Resources, IT, Legal and Marketing services.

Implementation of major change is hard, and success rates are low.

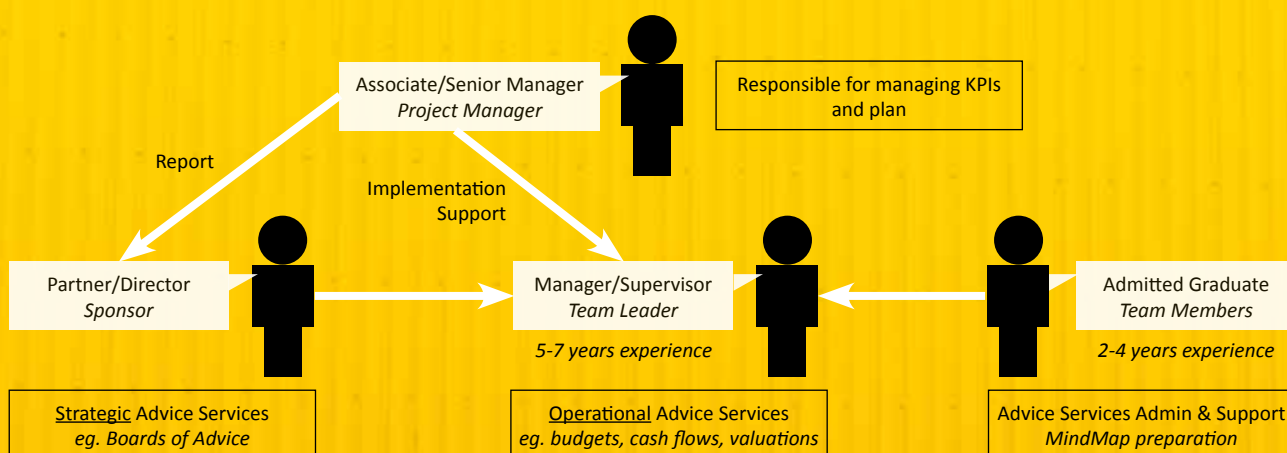
Traditionally, responsibility for implementing advice services and other growth plans has been assumed by the managing partner, or the partner with the biggest client base. These are usually key performers within the practice, and already have high levels of responsibility for ongoing revenue.

Rather than increasing the burden on existing high performers, practices are now using leveraging techniques when deciding who is best suited to implementing advice services. Leverage all of the practice's resources for implementation. Often senior professional staff – the future leaders of the practice – are best suited to implement and provide new services.

By allocating responsibilities to future leaders, practices ensure key performers continue to earn existing revenue while new revenue streams are developed.

Future leaders are often open to ideas for growth through new services. Also, they tend to be more proactive, and easy to motivate when plans involve developing their own skills. Engaging and developing new key performers internally is key to most practice's succession plans.

Implementation Model



Client Services Menu

Service	Partner	Professional Staff	Total Internal Charges	Fees	Write up/(down)
Hourly Rate	\$350	\$200			
STEP 1 – NEEDS REVIEW					
Needs Assessment meeting	0	1.5	\$300		
Needs to Solution meeting	0	1.5	\$300		
Engagement campaign					
	0	3	\$600	\$0	-\$600
STEPS 2 & 3 – BUSINESS VALUE ASSESSMENT & COMPARISON					
Business Value Assessment	1	2.5	\$850		
Business Value Assessment Comparison	0	0.5	\$100		
	1	3	\$950	\$3,500	\$2,550
STEP 4 – BUSINESS VALUE GAP					
Business Value Gap Analysis	0	1.5	\$300	\$900	\$600
STEP 5 & 6 – PROFIT & CASH FLOW OPTIMISATION					
Better Business Program					
- Risk SWOT workshop	0	3	\$600		
- Business Improvement Plan	0	3	\$600		
Profit and Cash flow analysis	0	3	\$600		
Benchmarking	0	2	\$400		
	0	11	\$2,200	\$4,500	\$2,300
STEP 7 – SOLUTIONS					
Business Life Planning Program	3	7	\$2,450	\$8,000	\$5,550
STEP 8 – BOARD OF ADVICE (4 quarterly meetings)					
Valuation	0	0	\$0		
Meeting	12	8	\$5,800		
Revaluation	0	1	\$200		
	12	9	\$6,000	\$12,000	\$6,000
TOTAL	16.00 HRS	34.50 HRS	\$12,500	\$28,900	\$16,400
Time Allocation	31.68%	68.32%			

Professional Staff delivering 60-80% of all advice services.

There are other benefits to this approach:

- It assists with retention of key staff, by providing skills development and career opportunities within the practice;
- Proactive staff are motivated to use the opportunity to build their own client and fee base;
- It increases the chances of successful implementation, by spreading the responsibility and effort required throughout the practice;
- It can be used to transition client relationships within the practice from senior staff to future leaders, increasing practice goodwill;
- Partners are able to focus their efforts in their most productive areas, which may be in strategic advice or in retaining existing revenue.

Phase 4 – Protect and Grow

Clients are key to a successful practice.

Client retention is just as important as attracting new clients, but is often not given the same attention.

Practices should ensure that they have strategies in place to identify and retain their existing 'ideal' clients, before allocating resources to attract new 'ideal' clients.

Consider the lifetime value of an existing client to the practice, and how the existing relationship can be developed to meet the client's needs (and generate up to 7 alternative revenue streams per client).

Accountants can adopt a process, to segment their clients, identify their 'ideal' client and develop advice services packages.

Bstar recommends that accountants offer their existing clients an integrated, collaborative advisory process starting with a Needs Assessment. This process includes the separation of 'strategic' and 'operational' advice services (leverage) with partners focusing their time on strategic advice.

The best approach is to develop a client service menu outlining advice services together with fees, costs and profit margins targeting each client segment groups. Advice services can be tailored for small, medium and large clients.

Phase 5 – Specialise

Specialisation (whether in services or a particular industry or niche market) is a proven strategy to protect and retain existing clients, and to attract new 'ideal' clients.

Specialist practices successfully use features such as benchmarking, succession planning and industry specific knowledge and experience to impress and attract new ideal clients.

Bstar has seen strongly growing practices that differentiate themselves with specialised services. These practices are able to successfully use the '2 adviser' model (discussed in the 2014 and 2015 Reports). By targeting new 'ideal' clients with their specialised advisory engagements, these practices aim to 'cherry pick' highly profitable advice services work, with or without the client's compliance work.

These 'ideal' clients change to a new practice, attracted by the specialised services. These clients often never consider, or ask, if the same service could be provided by their existing accountant.

Advice Practice Checklist

Use these 10 questions to assess how well your practice is positioned to grow leveraged advice services.

Phase		What you need:
Disrupt	<input type="radio"/>	Introduce and grow management accounting division.
	<input type="radio"/>	Migrate clients to cloud based accounting and compliances technologies.
	<input type="radio"/>	Outsource or offshore compliance and other low margin work.
Transition	<input type="radio"/>	Shared vision to grow advice services as a core offering.
	<input type="radio"/>	Relationship and product trust exists within the practice and with clients.
	<input type="radio"/>	Needs Review process to secure 7 out of 10 advisory engagements.
Leverage	<input type="radio"/>	Client services menu for all client segments.
	<input type="radio"/>	Implementation model where professional staff are delivering 60% - 80% of all advice services.
Protect and Grow	<input type="radio"/>	Advisory process for all client segments (S/M/L).
Specialise	<input type="radio"/>	Industry and service specialisation.

Part 3 | Growth Opportunities

Why these growth opportunities?

The 2016 number #1 business concern for accountants is ***how to attract new high value business clients***.

Bstar has utilised its ongoing research across a range of industries and projects to identify new and different opportunities to address this need.

Bstar has identified four growth opportunities for accounting Advice Practices:

- Business Succession Planning
- Medical Specialist Industry Specialisation
- Banking and Finance Solutions
- Predictive Advice

In Bstar's view these are the top areas for growth for Advice Practices right now. These opportunities are not commonly offered as advice services, offering a point of difference for Advice Practices.

SMEs and their needs

There are clear opportunities for accountants to use advice services to satisfy SMEs' needs.

Bstar and its Alliance Partners gather real time, live data all year round on SMEs, collating information from between **15 to 50 new SME Needs Assessments per month**.

Bstar's 2015 Small Business Research Report examines in detail SMEs and what they need and want from their advisers. The top 4 concerns of business owners:

1. Declining sales, profit and cash flow returns;
2. Succession planning;
3. Protecting business and family assets;
4. Business planning.

Bstar's Small Business Research Report clearly identified that business owners lack strategic and business planning – only 1 in 4 had prepared a formal business plan.

While they may understand their business, business owners only have limited business and financial management skills – **71%** of businesses surveyed don't invest in developing their own business and management skills.

Without the skills themselves, SMEs need external help and hands on support to implement the necessary improvements. However, when external professional advice is received, it isn't centred on their 4 top business needs.

Business Succession Planning

Succession planning was the number #2 SME business concern. More importantly, Bstar's research showed that this concern has escalated sharply for SMEs. It has moved from low to **high need to act**.

There is a clear need for succession planning, and associated advice on readying businesses for sale and succession.

While **73%** of business owners have no set date to retire, **63%** were willing to transfer control of their business.

While business owners might be willing to take advantage of an opportunity that presented itself, they were not taking action in this area - **78%** of owners did not have a formal succession plan, and **41%** had no understanding of succession planning.

55% of owners were interested in staff investing in the business, but only **9%** of businesses had developed investment and funding plans for key staff.

Business owners were very interested in finding out more about in the value of their business. They want to understand how their business compared to others, and how to improve their business. The present value of their business, and how to increase that value (8 in 10 owners) was of particular interest.

Overwhelmingly, **89%** of owners wanted to know how their business compared to industry averages and benchmarks. This shows that owners are interested in planning, but lack the information to do so.

The majority of small businesses remain heavily dependent on the owner - **58%** of those we surveyed believed their business could not survive without them.

Despite this, few business owners had considered or taken any steps to provide for the effects of an accident or ill health:

- **74%** had no succession or buy/sell agreement in place; and
- **60%** had no business or key person insurance in place.

Bstar's Alliance Partner experiences indicate business owners generally had not considered how to reduce reliance on the owner or taken steps to reduce this reliance. This is another area where there is little to no strategic planning.

Consistent with the lack of business planning, business owners have generally not planned for their retirement:

- only **20%** thought that proceeds from the sale of their business would be sufficient to fund their retirement;
- **88%** didn't know, but wanted to know the income and assets they would need at retirement;
- **70%** didn't know, but wanted to know the value that their business needed to be to fund their retirement.

Opportunities for Trusted Advisers

Business owners want advice, and they want focused advice. They don't know where to get the necessary information or how to use it. They need professional assistance from an adviser they trust, but Bstar's research found that only **61%** of business owners had identified their own trusted adviser.

4 out of 10 business owners don't know who to turn to for advice on how to improve their business - particularly financial measures and strategic planning.

SMEs need business growth, improvement and succession planning solutions. Accountants need to invest in their skills and services in this area, to meet SME needs.

Accountants skilled in advice services can provide SMEs with the focused advice, and hands on assistance, that they need to thrive, not just survive.

The position of most trusted adviser in terms of providing succession planning services remains fluid – and accountants, financial planners and lawyers all want to secure this title.

Clients look to their trusted adviser to be the focal point for their needs. This requires both relationship and product trust to be established.

An Advice Practice must have:

- An established Advisory Process:
 - Services should be flexible, tailored to the top needs of the specific SME;
 - SMEs lack management skills and experience – they need external support in implementing advice, while gaining those skills;
 - Accountants understand and can assist with performance reporting and analysis, including benchmarking;
 - By providing external, expert skills, they can fill the need for businesses too small to justify dedicated financial officers on staff.
- A trusted team of experts:
 - Clients will rely on their accountant to have access to a team of experts that have complementary skills;
 - No one adviser can deliver everything their clients need. A collaborative approach, with experts working together will usually produce the best result for the client;
 - Often, an accountant will meet their client's need by introducing or recommending another expert;
 - The team should include experts with skills in Banking, Financial Planning, Human Resources, IT, Legal and Marketing.

Industry Specialisation – Medical Specialists

Accountants are looking for ways to attract new ‘ideal’ business clients - Industry Specialisation is a key solution.

Practices can adopt specialisation as a strategy to target and retain their ‘ideal’ business client.

Specialised knowledge and services will build client loyalty – and can be used to attract new high value ‘ideal’ clients.

Successful practices are targeting advice work in growth industry sectors such as health professionals, education, infrastructure, transport/logistics, retirement, aged care and ‘not for profit’ community organisations.

The key in building advice solutions is to firstly understand the targeted industry – to understand what motivates the participants, and find a solution to that industry’s “burning question”.

Choosing Medical Specialists

More than 12 months ago, accountants advised Bstar that specialising in advice services for medical specialists was a key opportunity. To assist Bstar Alliance Partners with this opportunity, Bstar began assessment of this opportunity, and agreed that this is an area where there are clear needs for advice services. Further, Medical Specialists appreciate and value expert skills in other fields, and as they are highly paid, have the ability to pay for advice services.

To successfully focus on providing services to this industry, accountants need to understand, and work well with, the type of individual who becomes a Medical Specialist. As well as being highly intelligent, and highly qualified, they are regularly described as compassionate, inquisitive, and in some respects, highly sensitive. However, Medical Specialists are also commonly described as competitive, perfectionistic, driven and even obsessive compulsive.

To attract Medical Specialists, the advice services offer needs to be different, and demonstrate expert knowledge about their industry.

Accountants will need to demonstrate clear expertise to win the trust of individual specialists. However, by building strong relationship and product trust, the accountant will become their client’s trusted adviser, and the first point of contact for business needs.

All high value business clients start somewhere small...

The starting point is to understand the three major stages of a Medical Specialist’s career path – graduate, contractor and practice owner – and then develop advice services for each stage.

Medical Specialists can be targeted and gained as clients in their graduate stage.

Developing solutions tailored to each stage, and a consistent advice process, will allow services to be provided, and clients retained, over their career lifecycle.

Graduate clients can be retained, through the strength of this trusted adviser relationship, as their careers develop – and as graduates become consultants and then grow and develop into high value practice owners.

These Medical Specialists will need different advice services throughout their career as they build a practice, plan for succession and then retirement. Importantly, these clients also understand the need to obtain expert assistance, and have the ability to pay for services.

How to use Industry Specialist knowledge and materials to protect and attract clients:

1. **Research Reports** - build business relationship trust with existing and attract new clients by offering a free specialised research report. This can be delivered at an introduction meeting.
2. **Needs Assessments** - demonstrate the depth of knowledge and experience by asking industry specific questions at each stage of their personal and business lifecycle. Demonstrate an understanding of their key concerns - what’s keeping your ideal client awake at night.



3. **Create a point of difference for your Advice Practice** - promote and deliver tailored solutions to key industry needs & issues. For example:

Practice vs Goodwill Valuation Model

Develop advisory solutions to support individual Specialists in multi owner practices to transition from ‘personal’ to ‘practice’ goodwill, to increase the value of their practice. Providing this type of advice service will attract the attention of most Medical Specialists in the ‘growing to going’ phase of their practice lifecycle.

Medical Specialists – New Research Report

Bstar is currently engaged in a full research project involving Medical Specialists at all stages of their career. To attract Medical Specialists as clients, the advice services offer needs to be different, and demonstrate expert knowledge about their industry.

Bstar will release its Medical Specialist Research Report in the 2016 June quarter.

In addition, Bstar will release its Medical Specialist Industry Specialisation Package at the 2016 Bstar Conference (see *Part 4 –Way Forward* for more details).



Banking and Finance Solutions

In 2015, Bstar interviewed accounting practices as to their attitudes and use of banking and finance solutions within their practices.

Overwhelmingly, accountants said that it was important to their clients that they knew and understood banking and lending products.

Accountants regularly deal with lenders and banks on behalf of clients. A majority (**63%**) communicated to Bstar that banking and finance solutions were a core part of their existing advice services offering.

3 out of 4 accountants believed that accountants should offer a banking or lending solution as part of advice services.

Accountants are already assisting their clients, both individuals and SMEs, in dealing with lenders, and obtaining material benefits for their clients. Clear examples of client benefits obtained by accountants included:

- negotiating pricing discounts for clients (**67%**),
- obtaining special or preferential treatment (**44%**);
- accessing industry specific products or packages (**44%**).

The clearest trend to emerge from the research is that, when engaging with a broker, lender or bank, **it is all about the relationship**. This is the same irrespective whether it is for their own practice, or for a client.

9 out of 10 accountants said their own experience greatly influenced whether they would recommend a broker, bank or lender to others.

The personal relationship is key. **95%** of accountants Bstar interviewed had recommended or suggested a particular bank or lender to one or more clients. But **60%** did it by personal referral – to an **individual**, not a broker, bank or lender.

Accountants nominated the key factor to building a working relationship were:

- personal relationship with trusted individual (**74%**);
- single consistent point of contact (**53%**);
- specialised banking products or services (**37%**).

The Growth Opportunity

This research confirms the potential for banking and finance solutions, particularly for SME clients. Client solutions in this area have demonstrated clear benefits for clients – both financial and non-financial.

It is also clear that accountants require a high degree of relationship trust before they will work with brokers, banks or lenders on banking and finance solutions.

Accountants are protective of their relationships with their clients, and experience has made them wary of lenders in general.

Accountants are reluctant to refer or recommend clients unless they have a strong conviction in the lender – and this needs to be based on personal experience.

Before taking advantage of this opportunity, accountants and lenders need to work collaboratively on solutions for their mutual clients. These solutions need to respect the different roles that both the accountant and lender have with the clients – and focus on how a partnership, using the skills of all parties, will produce better client outcomes.

Predictive Advice

Grant Bloxham, Bstar CEO, has a strong opinion where the future of professional advice services is headed.

Bstar's 4th growth opportunity is sparked by this opinion.

Is Predictive Advice the future of professional advice?

A range of mobile apps can already predict our personal behaviour and habits. Our devices are making 'live' recommendations to try to improve our life and wellbeing.



Major software companies like Google and Microsoft are now investing billions of dollars in data analytical algorithms that they hope will predict worldwide weather disasters, disease outbreaks, flu epidemics and other strategic events.

In the professional service sectors the landscape is changing. Accountants are facing their own 'predictive' dilemma.

Accountants are already aware of the impact of cloud based accounting and compliance technologies on their practice. They agree that these technologies, by accessing real time business information, have changed the way professional advice is provided to their clients.

Bstar anticipates that real time information will be superseded by predictive information.

*Small business research confirms the need for Predictive Advice. **8 out of 10** business owners want to know the present value of their business and how to increase that amount and an overwhelming number (**89%**) will change their accountant to a professional adviser who can value, benchmark and improve their business.*

The future of professional advice will be redefined by predictive advice services.

Here are two examples currently available:

#1 Predicting the future using 'what if' calculations

Professional advisers can provide predictive advice to their clients by featuring 'what if' calculations in their Profit/Cash Flow Optimisation and Board of Advice (BOA) advice services.

Predictive advice strategies can include setting profit and cash flow optimisation and risk minimisation targets and using benchmarking and industry specialisation information to validate the improvement targets.

By doing a Business Value Assessment (BVA) of the client's business at the start of the engagement, and then conducting a 'what if' analysis illustrating the impact of achieving those targets, advisers can help owners forecast their future, and understand how to achieve it.

#2 Predictive Business Valuations

Bstar IP is developing what it believes is the first ever *Value Improvement Benchmarking Advice* portal that will **predict** how business owners can achieve benchmark valuation performance, and show them **the outcome**.

The cloud based software will analyse key profit, cash flow and qualitative risk and value driver benchmarking information **predict the valuation outcome** when a business achieves benchmark performance.

The software will show business owners **how to do this**, with the support of their professional adviser.

Successful advisory practices are leveraging real time client information to develop predictive solutions that highlight what existing and new clients need to do to become a benchmark performing business.

Business owners will leave their existing accountants and engage with those who can provide predictive advice.

Part 4 | Professional Associations & Government

Professional Associations

Professional associations have told Bstar that they are well aware of the **High Awareness but Low Action** trend within the accounting profession. (See *How are Accountants Reacting* for more information).

In the accounting industry, professional associations believe that transitioning to advisory business model is a priority for their members. They are also cognisant that while the issue has high awareness, the majority of members are not taking action to change.

To support motivated members these associations have provided increased business development resources, and new training initiatives.

In 2015 Bstar and Chartered Accountants Australia and New Zealand (CA ANZ) jointly launched the Practice Advice Essentials Professional Development Course to its members.

Shrinking (not expanding) Advice Services

Similarly, all accounting professional associations have provided information, resources and support for their members about the transition to AFSL licensing for SMSF advice (removal of the exemption for accountants).

Despite the abundance of resources, only 204 applications for limited AFSLs had been lodged to 19 November 2015.

From 1 July 2016 only licensed accountants can recommend that a client establish a SMSF.

Associations are concerned that members who have not yet taken action have effectively decided to 'opt out' of advice on SMSFs. Without this element, the practice's remaining tax planning advice and advice services generally, are restricted, and run the risk of becoming obsolete.

Association Support Snapshot

Professional Associations understand the opportunity for their members to be the leaders in advice services, but motivating their members is challenging!

Chartered Accountants Australia & New Zealand

Demonstrated leadership through the initial support of the Practice Advice Essentials PD Course.

Completing the Australia/New Zealand merger occupied CA ANZ resources in 2015. CA ANZ is reviewing its current PD content to incorporate professional development of advice services.

CPA Australia

CPA Australia understands transition to an Advice Practice is a key concern of its members. It has focus on this issue and is dedicating significant resources in 2016 to re-invigorating its offering for members.

Institute of Public Accountants

IPA has a strong interest in supporting SMEs through its membership base. IPA is encouraging its members to make the transition to an Advice Practice so their SME client benefit from value improvement advice.

SMSF Association

In late 2015, SMSF Association formed a strategic research alliance with Bstar for the provision of ongoing research reports to their members so its members can better understand the key issues facing SMEs and develop solutions to these key needs.

Government

How can business owners find professional advisers with the right skills?

Being able to find a suitably qualified professional adviser with the right skills and experience for their needs can be a challenge for many small businesses.

Business owners need professional advisers to provide specialised business advice services - tailored to their individual needs. But only **61%** of business owners Bstar surveyed had identified a trusted adviser.

The best results are achieved when business owners start with a trusted adviser, who can locate and work collaboratively with experts with specialist skills - getting the best mix of financial, strategic, industry specialist,

compliance or legal skills. But **4 out of 10** business owners don't know who to turn to for advice on how to improve their business - particularly financial measures and strategic planning.

Nationally recognised accreditation

Bstar has commenced discussions with Professional Accounting Associations about developing accreditation for advisers and a nationally recognised designation, for example **Professional Business Adviser** or similar. Bstar recommends that there be minimum standards required to satisfy the designation or accreditation, such as education, qualification and minimum periods of practical experience.

Publicly identifying and recognising advisers with skills and experience will encourage specialisation and professionalism within these advisers.

Opportunity for Government support

Government has the opportunity to encourage professionalism and support the development of advisers with the appropriate skills to a consistent national standard by recognising and supporting accreditation or designations developed by Professional Associations. Bstar recommends this initiative be supported by Government.

Once designations or registers are in place, State and Federal Governments can also play a significant role to assist business owners to identify these advisers. Existing Government websites (e.g. business.gov.au, ASIC.gov.au, ACCC.gov.au and State Government websites) have the opportunity to provide information about accreditation and links to registers of Professional Business Advisers.

Registers are also useful to allow the public to check adviser qualifications and locate an accredited 'Professional Business Adviser'.

Initiative with TAFE (Qld)

Consistent with the need to support SMEs to get better business advice, in January 2016, Bstar announced an alliance with TAFE (Queensland) Small Business Solutions division.

The Alliance between Bstar and TAFE Qld will allow TAFE mentors to access Bstar's world class Needs Review materials and benchmarking information. This will enable TAFE mentors to engage their clients and provide tailored solutions which focus on their specific needs – usually to grow and improve their business.

Innovation, Entrepreneurialism - Benchmarking added to TAFE Small Business Training Program

"We need to keep up with the demands placed on small business in the areas of innovation and entrepreneurialism...."

...To help a participant in their quest to grow their business, we recognised that the snapshot had to clearly identify the needs of the participant's business...

...Bstar was referred to us and we entered into discussion with them as to how we could integrate their Benchmarking and Business Evaluation Program into TAFE Quality Assurance - they ticked and exceeded all our needs."

*John Hebrard, Manager - Small Business Solutions
Extract from Press Release.*

**Small Business
Solutions**





Part 5 | Way Forward

Accountants are telling Bstar their major focus is on growth, and half of all practices believe that major change is required to achieve that growth.

Accountants have made progress in getting their house in order over the last 12 months, and they are now poised to take advantage of growth opportunities - to transition to an Advice Practice.

Bstar's Top 3 Recommendations for Accountants:

1. Take the next step on the Transition Pathway

Assess where you are on the Transition Pathway. Use Bstar's 5 Key Phases (in Part 2, *Advice Practice of the Future*) to determine where you currently are in your transition to an Advice Practice.

Then plan how to complete the transition - start your changes with the next phase.

2. Invest in developing advice service skillsets

Consider and develop the advice skillsets of all your practice resources – not just partners and directors.

Aim to leverage all staff resources, and to have 60% - 80% of all advice services delivered by professional staff/future leaders.

Bstar encourages accountants to consider courses that develop specific, practical skills to help develop and deliver advice services.

3. Learn from others' successes and failures

Learn from other accounting practices about what has (and what hasn't) worked, when transitioning to an Advice Practice. Talk to other professionals in your networks.

The Starting Points

- Enrol in the Practice Advice Essentials PD Course.
- Register to attend Bstar 2016 Conference.

Practice Advice Essentials PD Course

The *Practice Advice Essentials Professional Development Course* is a purpose built course developed by Bstar Training for professional services practices to fast track their transition to an Advice Practice and develop the advice services skillsets of their professional staff and future leaders.

The course includes 4 units: Alignment, Engagement, Specialisation and Support.

The good news - accountants ARE applying the key learning outcomes of the course to manage the 'transition phase' of their journey to an Advice Practice.

Bstar's 2016 Conference will feature presentations from a partner and a key staff member from different accounting practices that have participated in the Practice Advice Essentials Course and then **successfully implemented** the key learning outcomes in their practice to grow advice services.

Bstar's 2016 Conference

Accountants like hearing from their peers.

Bstar's 2016 Conference, to be held in Brisbane on 26-28 October, will feature real life success stories from accountants, who will discuss each phase of transitioning to a successful Advice Practice.

Accountants will be able to share experiences with over 200 Bstar Alliance Partners who have a passion for advising their clients on how to grow the value of their business so they can retire financially secure.

Professional staff and future leaders will be inspired to take responsibility for growing advice services and will be able to attend PD workshops centred on enhancing their advisory services skillsets.

Other 2016 Conference features:

- Expert opinion on how to 'disrupt' a practice and its client base;
- Medical Specialists Industry Specialisation Package launch;
- Practical, standalone PD Workshops:
 - o Growing Business Advisory Revenue: Succession Planning, CFO and Board of Advice services;
 - o Professional Staff/Future Leaders: Engaging existing clients and attracting new clients.



Important Information

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