



ADVISORY SUCCESS

► ACCOUNTANTS RESEARCH

Key Findings

The NEED of Accountants is to grow fees, improve profits and value by increasing their advisory services fee mix and attracting new high value business clients.

The SOLUTION for Accountants is to transition to a business model that addresses and resolves 4 Advisory Success Essentials - Alignment, Engagement, Specialisation and Support.



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PART A: ACCOUNTANTS' NEEDS

Introduction

What's keeping Accountants awake at night?

It's the question we needed to answer, if we were going to establish both relationship and product trust with our Alliance Partners.

Our Alliance Partner (client) is typically a 2-10 partner Accounting and/or Financial Planning business. Bstar currently works with over 150 active Alliance Partners servicing more than 54,000 SME clients.

To better understand our Alliance Partner needs we conducted extensive research and the results were **a reality check for our business!**

We discovered that, while we had been successful in building business valuation tool 'product' trust, we had little or no 'relationship' trust with our Alliance Partners.

Our relationship was no different to other 'providers' wanting to sell solutions to accountants and their SME clients.

To become our Alliance Partners' most trusted adviser, we have developed processes to build both relationship and product trust with Accountants and Financial Advisers. We believe these are the first of their kind.

We used these new trust processes with our accounting business Alliance Partners to obtain the information that makes up this Research Report.

Our primary tool was Bstar's *Accounting Industry Growth and Succession Planning Assessment (AI GASPA)*. This involved conducting face to face strategic needs review discussions with our accounting business Alliance Partners. As a result, we have great confidence in the quality of information which makes up this Report.

We will continue these face-to-face interviews with both existing and new Alliance Partners. We will **release bi-annual reports and updates**, reflecting ongoing changes in the industry.

Business Concerns

Our *AI GASPA* contains a comprehensive list of key Business Concerns. Accountants were asked to rank both their concerns and then the need to act. The following table (Page 2) provides a summary of the Business Concerns ranked in order from highest to lowest concern.

What are Accountants most concerned about?*

1. **Declining fee & profit growth returns;**
2. Attracting high value business clients;
3. Services fee mix - compliance to advisory.

*Top 3 concerns.

What are Accountants least concerned about?*

1. Practice location, fit out/client parking;
2. Quality of professional advice;
3. Finance arrangements.

*Lowest 3 concerns.

Whilst practice succession is a medium concern, 'partner alignment' (see Part B) is seen as one of the major barriers to achieving **Advisory Success**.

The investment in compliance training and advice processes seems to be paying off, as 'quality of client advice' was ranked as a low concern.

What's driving Accountants to respond to changes in their industry and business environment?

Increasing business advisory services has been one of the most talked about topics in the accounting industry over the last 10 - 15 years, **so why are Accountants taking action now?**

Part of the answer lies in the emergence of cloud based accounting and compliance technologies. The new technology has created the **'urgency factor'**.

Leading accounting businesses have completed comprehensive analysis on their historical client services fee mix.

They have been able to identify the % of fees charged to their clients that relate to financial accounts preparation work and compliance work.

It's these fee components that are at most risk with the move to cloud based technology.

The new technology is already impacting financial account preparation work. It will continue to decrease fees for compliance and financial accounts, and inevitably impact accounting practices' profit rates and growth. Accountants are reacting by trying to change their revenue mix – to counter-act the current and future decline in traditional accounting and compliance revenue by growing their advisory business (see Part B).

Understanding Growth and Succession Planning

Accountants have a medium to high degree of understanding in relation to practice growth and succession planning.

The most common nominated growth plan was *'to grow client base by offering/promoting advisory services'*. The most common nominated succession plan was *'transition practice interest to a suitably qualified and capable successor'*

And the most common response for timing for both growth planning and succession planning was **'Now' to '1 year'**. Accounting practices are aware there is a need to act, but need to **implement the necessary changes**.

The majority of accountants are in the growing to going stage of their business life cycle.

Business Concerns





► Opportunity

The industry benchmark (aver. top 20%) business cap rate for SMPs is 3.75. Accountants can improve their valuation profit multiple by 0.9 (31.5%) if they address and resolve 4 Advisory Success Essentials (see Part B).

Practice Valuation

Valuation methodologies vary depending on the size of the accounting business.

Smaller sized practices (< \$500k in annual fees) are valued on a multiple of fees and are considered easy to sell. Client fee multiples paid vary, depending on the quality of the client base.

Small to Medium Practices (SMPs) \$0.5m - \$10m in gross annual fees) are valued on a multiple of profits. SMPs are harder to sell as a whole. On average, accountants considered they would need a minimum **3 - 5 year** time frame to get their practice ready for sale. The industry average profitability, cash flow and business cap rate benchmarks for practices in this fee range are summarised below:

- Notional Profitability as a % of Gross Fees: **19.8%***
- Free Cash Flow Factor: **1.31**
- Business Cap Rate: **2.85**
- Structured, fixed fee advisory services packages;
- Regular client surveys;
- Social media communication; and
- Technology sharing.

* After allowing for notional partner salaries.

Qualitative value drivers, services mix and profitability per partner were considered the factors having the greatest negative impact on practice values. The most common 'we're ok, top 20%' value driver responses were 'WIP/Debtors management' and 'staff productivity'.

Business Value Gap

Over **68%** of accountants assessed did not know what their practice/practice interest needed to be worth at time of sale to fund their desired retirement lifestyle.

The majority believe they will need to substantially (> 25% increase) grow the value of their practice before they would be in a position to retire financially secure.

Key Success Factors

The Key Success Factors (KSF) section of our *AI GASPA* lists nearly 50 questions ranging from surviving/thriving to estate planning.

We have included a summary of responses to the KSF questions, together with further explanations provided by accountants in our interviews. More detailed information will be provided in our industry briefing events, training courses and conference.

Surviving or Thriving

The majority of accountants interviewed don't have their own trusted adviser.

Clients

Accountants believe they could do more to build stronger client relationships in the following areas:

62% of accountants interviewed agreed their practice values were being negatively influenced by the high degree of 'personal' goodwill between a 'rain maker' partner and their high value clients.

Accountants need to be realistic in their assessment of the potential for advisory services within their client base. The accepted 'rule of thumb':

- **20%** of SME clients are well managed in a formal/informal Board of Advice or CFO role by their accountant;
- **30%** of SME clients will never pay for advisory services;
- **50%** of SME clients have growth, improvement and succession planning aspirations. **These are the ideal clients for Advisory Services** (Part B).

Segmenting clients and developing advisory services packages for each client profile is a proven Advisory Success Essentials engagement strategy (see Part B).



Business Management and Personal Development

- **95%** of accountants interviewed are continually investing in their own professional development; and
- **65%** have formal PD programs in place for their staff.

The majority of accountants believe a lack of confidence in 'marketing' and/or 'selling' advisory services is restricting them in successfully growing their advisory services.

Accountants told us that:

- Board of Advice; and
- Planning for Sale

are the top 2 areas of future services skills development needed by both partners and senior staff in accounting practices.

Business Risk

Some business risks identified are now well understood by accountants and are being addressed. For example, cash flow management is a medium business concern, but increasingly being addressed with client fee funding support packages. Tight management of WIP/Debtors Days is also essential, and generally being addressed by accountants.

Three other major business risks identified were:

- Partner alignment;
- Out of date practice agreements; and
- Inadequate buy/sell insurances.

Emerging risks include the impact of outsourcing on fees/profits and increased competition from banks, business coaches, bookkeepers etc.

Best Practice

- **54%** of accountants believe they are utilising technology effectively; and
- **32%** have implemented or are considering 'outsourcing' as a solution to improve productivity in the next 1 - 3 years.

► Risk

Leading accounting businesses are marketing a '2 accountant model' to potential SME clients. The initial approach does not involve any change to the status quo - keeping the compliance work with the SMEs existing accountant (Accountant 1).

The advisory needs are targeted by Accountant 2, marketing the specialist value added advisory services. Initially this can involve 'cherry picking' the more profitable fees. Compliance work may (or may not) be targeted, as Accountant 2 builds trust with the SME.

Overtime, this new client acquisition strategy works as SMEs tend to build greater trust with an accountant that is adding value to their business. Historical client relationships should not be taken for granted.

Staff

Accountants interviewed agree staff engagement can be improved. **41%** believe a lack of communication is a key de-motivator for staff.

The following staff management procedures were nominated as areas to be addressed to improve staff attraction, retention and motivation:

- Communication policies;
- Formal induction programs;
- Relevant and current job descriptions; and
- Structured reward schemes.

Employing a suitably qualified Practice Manager who can take on the role of a practice CEO is one popular management succession planning strategy.

Accountants believe this would create more time for partners to focus on growing their advisory business.

Nearly all accountants interviewed are expanding their marketing resources to retain and attract new clients, mainly due to increased competition within the industry.

Lifestyle

The accountants we interviewed told us that:

- **92%** enjoy their work and pay attention to their diet and overall health;
- While only **68%** spend time doing the things they enjoy.

Succession

Accountants told us that:

- **62%** don't have a formal succession plan;
- **41%** don't have personal wealth management strategy; and
- **30%** don't have adequate key person insurance.

Estate Planning

When we interviewed accountants, we found:

- **38%** don't have an estate plan;
- **16%** don't have an up-to-date Will; and
- **49%** have outdated succession agreements and buy/sell insurance

PART B: BUSINESS MODEL FOR ADVISORY SUCCESS

Key Need

This part of our Report focuses on the practical solutions developed and successfully implemented by our accounting business Alliance Partners to achieve **Advisory Success**.

Accountants are experiencing shrinking fee growth and profits.

Accountants already know that part of the solution is to grow their business advisory services fee mix and attract new clients.

What accountants need now is the HOW TO achieve this - assistance with what they need to do, because they already know why they need to do it.

Finding assistance with planning and implementing change in their own businesses appears to be almost as challenging as the transition itself. Accountants have told us that they need more skills to provide advisory services. Specialised training courses on advisory skills and general training in change management are an obvious starting point, but more is needed for success.

Professional Associations

The professional associations can play a significant role to support their members to transition to a business model for **Advisory Success**. An accepted method is for professional associations to provide a system of accreditation to promote public and client awareness of specialist services and identify members with particular specialist skills.

We suggest development of accreditation in advisory services for suitably qualified members as a **'Value Improvement Business Adviser'** or **'Business Value Improvement Adviser'** or other similar title.

This accreditation would be ideal for accountants in public practice with an established level of professional experience and who have demonstrated specific ability and skills in **business advisory services**.

This accreditation should operate in conjunction with introductory and advanced training courses in **business advisory skills**. These courses could be developed within the associations or by partnering with external bodies and included within the associations' existing training and education programs.

Suitable modules could be designed to educate and support advice on future business growth, valuation, business improvement, succession and estate planning.

Improvement Software and Tools

What accountants **don't need** is another 'improvement tool'.

Accountants need to understand that buying a profit/cash flow improvement tool is not the business advisory solution. It does not help in getting a client to engage an accountant to provide advisory services.

Bstar's SME research (due to be released later in 2014) indicates **whilst improving profit and cash flow is one of 4 common SME needs, it's not the solution SMEs are most willing to pay for.**

Advisory Success Essentials

There are **4 Advisory Success Essentials** - Alignment, Engagement, Specialisation and Support. Each of these need to be addressed for accountants to achieve **Advisory Success**.

What follows is a summary of some of our key research findings. More detailed information will be available in our industry briefing events, training courses and conference.

Alignment

Accountants need to get their house in order first if they are going to achieve **Advisory Success**.

Accountants need to treat advisory services as a 'core service' within the practice, not an ancillary marginalised service offered on an ad-hoc 'as the need arises' basis. Commitment, resources, partner alignment, a shared vision and appropriate work culture must be in place to attract and retain clients. Change needs to be planned, managed and reinforced.

Engagement

To achieve **Advisory Success**, accountants need to understand there is a greater degree of trust required for advisory services than traditional accounting and compliance advice.

Both relationship and product trust are crucial for clients to commit to an advice engagement. Building trust is a skill that can be learnt.

Specialisation

Accountants need to consider developing service, industry and/or niche market specialisations if they are going to achieve **Advisory Success**.

High value clients such as Doctors, Pharmacists, Dentists and Medical Specialists will have higher trust and better engage with a business adviser that can demonstrate specialised industry knowledge and services expertise.

Support

Accountants need an Accountant (their own trusted adviser).

Receiving independent, objective advice is considered a necessity if accountants are going to achieve **Advisory Success**.

Like plumbers that ignore the leaking tap in their own homes, accountants often defer 'fixing' their own practice, focussing more on their clients' business problems and not their own future growth and success.

Our interviews showed that accounting practices have far too many failed attempts to implement changes within their own business.

Past attempts to grow business advisory services within a practice often failed due to a lack of resources (time, capacity and the right skills sets).

Having access to an experienced, trusted adviser or mentor shows commitment and provides resources and importantly a degree of accountability.

This leads to improved implementation, particularly in preliminary change management.

Accounting practices need support to implement change, especially in the areas of:

- Business development;
- Managing Gen Y expectations;
- Developing and implementing practice succession plans; and
- In the delivery of specialised advisory services to clients (usually by developing a team of experts).

When presented with new ideas or opportunities, accountants have told us they prefer to hear from their peers about real successes before committing to making changes.

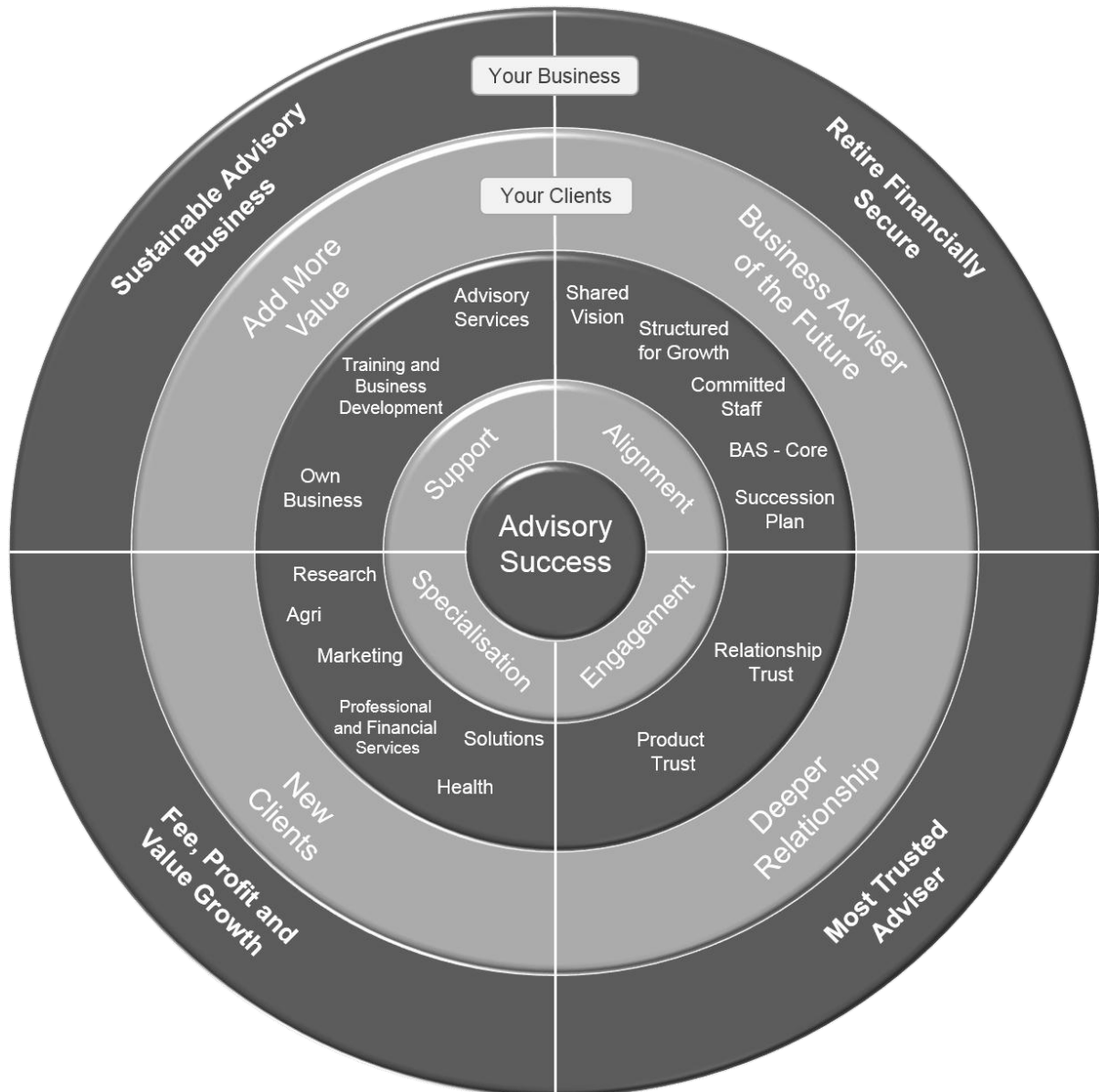
There is a move away from coaching clubs to seeking peers in smaller groups of like-minded professionals or affiliated national partnership members.

One result of our research is that we have the real life experiences of our Alliance Partners in what does, and doesn't work.

From this we have collected practical proven strategies on what accountants can do to achieve **Advisory Success**.

We have listed 12 Advisory Success Essentials strategies examples for consideration in this Report (Page 10). More detailed information will be available in our industry briefing events, training courses and conference.

Business Model for Advisory Success





Practical Strategies

Alignment

- **Complete** a personal needs review and business risks SWOT workshop to quickly assess how the practice (the partners, staff and practice group) are positioned for success in advisory services. **See an example on page 11.**
- **Prepare** a formal plan for the advisory services business. This should set realistic fees, WIP, cost budgets and timelines.
- **Document** client relationship management and handover procedures and responsibilities - Needs Review (partner/key client contact), Advisory Services (specialist), Board of Advice (partner/key client contact).

Engagement

- **Segment** the practice's clients (e.g. by fee size) and develop advisory services packages for each client profile. **See an example on page 12.**
- **Enhance** the client needs review to include a 3 step engagement process:
 - Step 1: Needs Assessment - build personal relationship trust.
 - Step 2: Needs to Solution Meeting - secure engagement.
 - Step 3: Engagement Campaigns - improve client awareness and education.
- **Employ** 4 engagement 'tactics' in each of the needs to solutions meetings to improve client engagement rates.



Specialisation

- **Select** an industry with SMEs that meet the target ideal client profile and is in a growth phase of its lifecycle.
- **Research** the industry 'burning question(s)' and then promote the needs based solutions to the 'burning question' in the targeted marketing materials. For example, *we specialise in providing advice to Doctors in private practice on how to transition from 'personal' to 'practice' goodwill.*
- **Use** advanced search functionalities featured in professional social media tools such as LinkedIn to connect with potential industry based clients. **See an example on page 13.**



Support

- **Commit** to a fixed amount of time each week to grow the advisory services business (make an appointment with yourself), with commitment from the key resources.
- **Communicate** milestones/successes regularly to stakeholders (e.g. partners, staff and clients). Meet with the trusted adviser or mentor to stay focussed on the planned advisory services growth objectives.
- **Promote** structured Board of Advice services to the 50% of targeted SME clients. Don't waste time on clients that don't have the capacity to pay and/or would not value your implementation support. **See an example on page 14.**



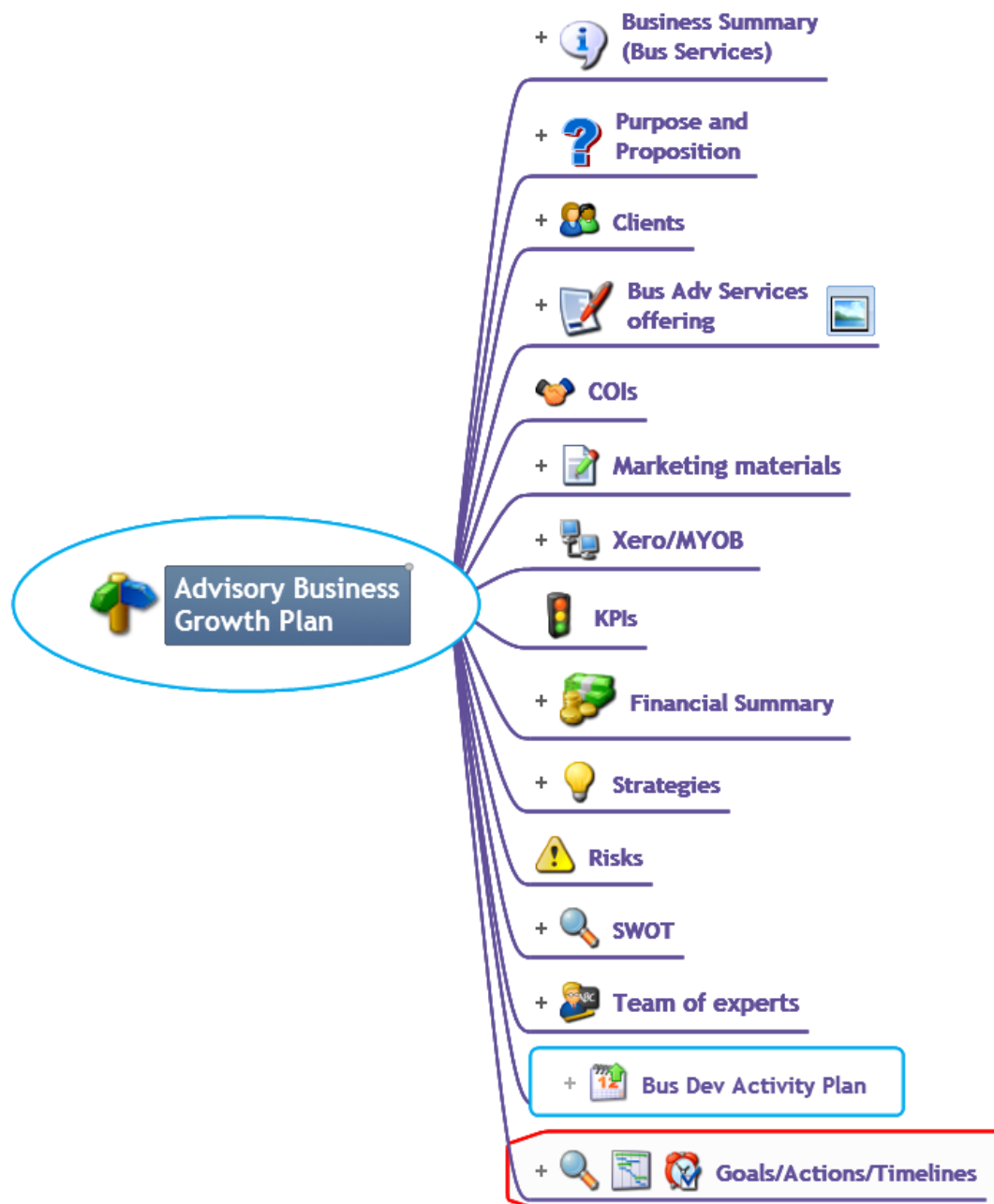
Alignment

We believe a proven way of building Alignment is for partners and key staff to participate in a risk SWOT workshop. Set out below is an example of an actual Accounting business' **Risks SWOT Analysis Matrix** developed using Bstar's Accounting Industry Risk and Value Driver Assessment and Business Life Planning Program. It is the first step in creating a shared vision for the business, before developing goals and actions plans to grow the advisory business.

Strengths	Weaknesses
<ul style="list-style-type: none"> Relationships with clients Practice reputation and location Financial position of practice Aver gross fee and profitability per partner Compliance systems/processes for advice 	<ul style="list-style-type: none"> Partner alignment on future direction Attract new clients, ageing client base Informal marketing plan Staff productivity/write-offs No structured advisory service offering Wages and salary costs as a % of gross fees
Opportunities	Threats
<ul style="list-style-type: none"> Grow SME advisory services Outsourcing Appoint professional practice manager Health sector specialisation SMSF Board of Advice services Purchase small accounting practice 	<ul style="list-style-type: none"> Relationship breakdown Practice succession - no formal management/ownership plan Reliance on - rain maker Value Gap - relying on sale of practice interest Absence of qualified, motivated successors Imbalance in partner earnings vs performance Top 5 clients selling their business

Engagement

Leading accounting businesses have mapped out their plans to grow their advisory business. The plan needs to address all necessary steps to achieve the goals. A clear understanding of each type of client is key, together with what the business is offering each client group and how that client relationship will be managed. Below is an extract from a Mind Map Growth Plan, which shows factors to be considered.



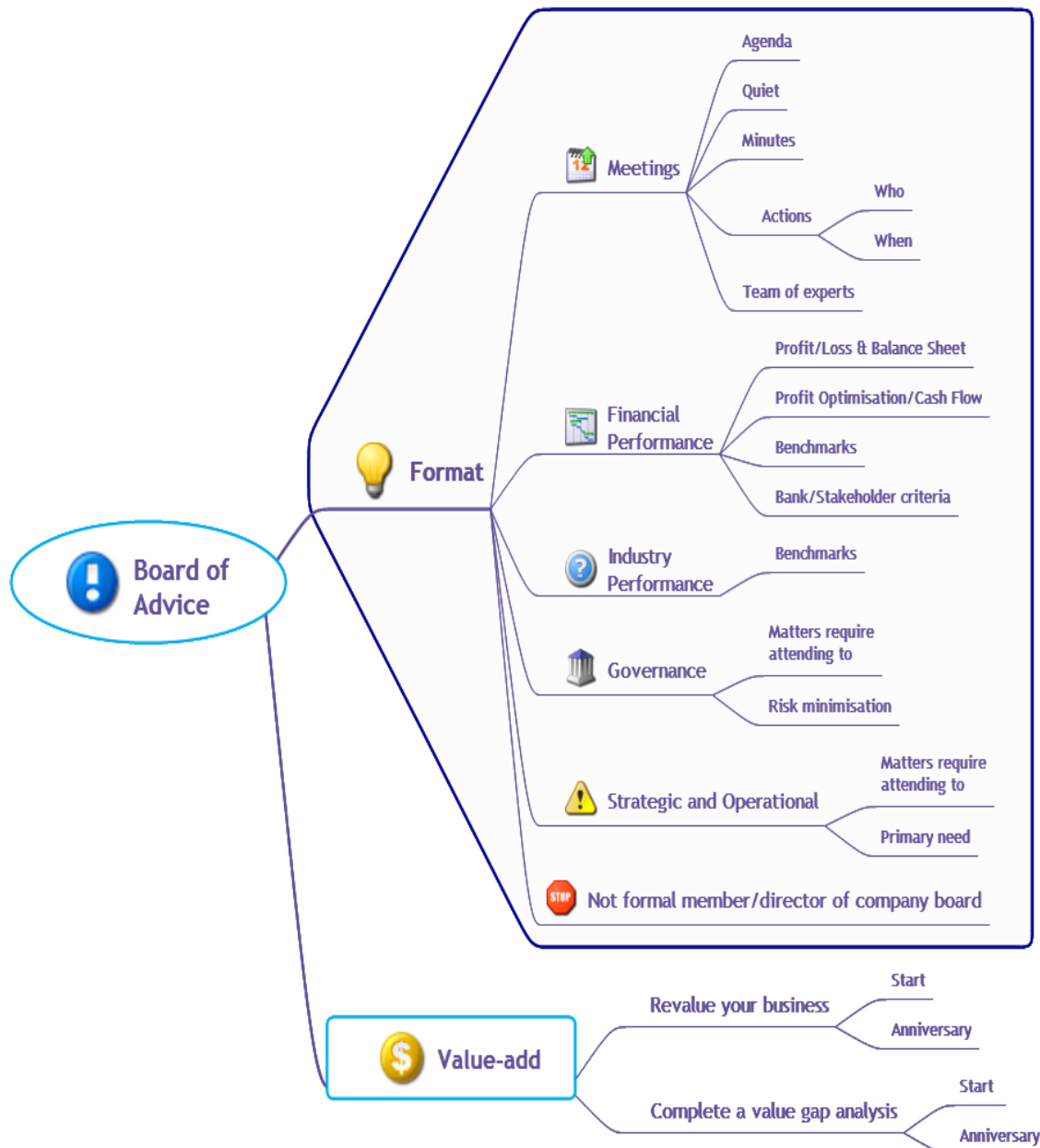
Specialisation

After establishing an industry or niche market advisory specialisation, leading accounting businesses are using social media to promote their services directly to potential clients. They are using innovative web sites and LinkedIn discussion groups to communicate cost effectively with centres of influence and create new client opportunities.

The screenshot shows a LinkedIn group page for 'Value Improvement Business Adviser'. The page header includes the LinkedIn logo, 'PREMIUM' status, a search bar, and navigation links like 'Home', 'Profile', 'Connections', 'Jobs', 'Interests', 'Business Services', and 'Upgrade'. Below the header, there's a banner for 'Need a New Accountant? - The "Basman" could be just what your business needs.' The group name 'Value Improvement Business Adviser' is prominently displayed with 93 members. A 'Click here to edit your hero image' button is visible. The main content area shows a discussion titled 'What's keeping Accountants awake at night and what do Accountants need to do to achieve Advisory Success are the 2 key industry questions our Accountants Research...' by Grant Bloxham. Below this, there's a poll question: 'How well is your Practice positioned for Advisory success? To achieve Advisory success, the essential first step is to create a shared vision for the future of your...'. The right sidebar features 'Members of this Group' with profile pictures, 'Your group contribution level' with a progress bar, 'Ads You May Be Interested In' including 'Master in 1 Year for CEOs' and 'Project Mgmt Diploma', and 'Latest Activity' showing recent posts and comments.

Support

Leading accounting businesses have new and innovative ways to support their SME clients and help them grow. An example (see extract of Mind Map below) is a structured Board of Advice service which gives regular, well understood implementation support to the SME client, with fees that can be budgeted and paid in advance.





► Our SME research shows, for every 300 SME clients*:

- 150 will have a need for business services advice;
- 7/10 will engage in an advisory capacity;
- Accountants can generate \$1.05M in recurring advisory fees;
- Accountants can grow the value of their advisory business by \$700,000.

*Profile: Profitability > \$75k, FTE > 5, Age > 55 (one of all segmentation criteria to be applied)

At our upcoming International Conference (October 30/31), 6 accounting and financial advice businesses will present their real life advisory successes stories. We will release new Board of Advice Program materials, so our Alliance Partners, accountants, financial and business advisers can take advantage of the fee growth opportunities referred to in this Report.

SME Demand

There is good news for accountants - their SME clients have a strong need for advisory services, and these services are already in high demand. SME clients will pay for advisory services, provided there is a clearly demonstrated value-add.

SMEs need **implementation support** to succeed in their business.

Business Valuations, Planning for Sale and Board of Advice advisory services represent the next big fee growth opportunity for accountants, financial and business advisers.

Completing an annual **business revaluation** and **value gap analysis** as part of your Board of Advice service offering is one example of how you can quantify the value your advisory services has generated for your clients.

Financial Benefits

There are significant financial benefits for accountants that successfully transition to a business model for **Advisory Success**.

Advisory services are up to 3 times more profitable than compliance services with an average minimum gross return per hour over \$650.

There is a 'cap' or limit on the amount of personal exertion working hours available to each accountant. Accountants can substantially grow their practice profits (and increase its value) by changing their fee mix to increase advisory services.

Providing a Board of Advice service creates an opportunity for accountants to provide ongoing advisory services, with regular, high quality contact with targeted clients. This ongoing relationship often leads to other transactional, financial or advisory services with the SME. Strengthening the relationship with the existing client base in this way will improve the fee mix, and grow the practice.

A continuing Board of Advice service can generate an average minimum recurring fee from an SME client of \$10k per annum. As well as the demonstrated advantages in providing recurring fees, this reduces

pressure on the practice to continually source new clients or transactions to maintain or grow.

By implementing the recommended relationship and product trust engagement processes highlighted in this Report (see Practical Strategies - Engagement) there is a clear pathway for accountants to grow a client relationship from an existing compliance fee (e.g. **\$5k**) into a **\$20k** combined client services fee.

Proven process to engage SME clients

- Complete the client's needs assessment at their business premises;
- Present the needs to solution materials to the client in the accounting practice's office;
- In the client's needs to solution meeting, use the 4 proven engagement tactics:
 - Highlight the potential for value improvement;
 - Provide a real time demonstration of comparable advisory reports;
 - Focus on emotive as well as financial benefits;
 - Discuss and agree fees.

Most common fees paid by SMEs (total: \$15k)

- Better Business Program (**Planning**) Fee: \$4k;
- 4 x Board of Advice (BOA) meetings (**Implementation**)
 - Fee: \$6k (4 quarterly ½ day meetings @ \$1,500/meeting);
- Business valuation and revaluation (**Value-Adding**)
 - Fee: \$5k (\$3k start, \$2k at anniversary of BOA engagement).

Way Forward

There is ongoing commentary in the industry and the media on the need for accountants to grow their business advisory services. That will continue.

Our Research Report presents the most up-to-date findings on the key advisory needs of accountants. We have gone further, and provided an overview of a practical business model for **Advisory Success** that [addresses and resolves 4 Advisory Success Essentials](#).

If you would like to learn more about achieving **Advisory Success**, you can attend one of our industry briefings events, training courses or international conference listed on our web site (www.bstar.com.au).

Our briefings, courses and conference include more information on the Key Advisory Needs of Accountants and Advisory Success Essentials.

Important information

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vi|ba STAR
Value Improvement Benchmarking Advice

Australia

Toll Free 1300 552 577
bstar@bstar.com.au

New Zealand

Toll Free 0508 278 276
bstar@bstar.co.nz

Canada

Toll Free 855 722 7827
bstar@bstar.ca

United Kingdom

Phone (+44) 0845 609 1696
bstar@bstar.uk.com

Singapore

Phone (65+) 6809 5240
bstar@bstar.sg