

ACCOUNTANTS  
RESEARCH  
REPORT  
2017/18



IN PARTNERSHIP WITH





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# Foreword

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Over the last four years we have worked closely with accountants to collect and share the latest insights into the accounting industry and gain an understanding of “*what is keeping accountants awake at night*”.

Our findings indicate that accountants are well aware of the issues facing their profession and the need to change their practice revenue model. The good news is that one segment of the profession has been taking action - we call these practices **Strategic Innovators**.

In this year’s Report, we have focused our research on this group of accounting practices as we consider them to be thought leaders and hope their actions will inspire other accounting practices to take action.

Accountants have told us that one of their favourite parts of our Report is the **solutions section**. This year we have included sections on practical and proven growth solutions implemented by leading accounting practices to combat industry threats and provided examples of real-life growth plans.

We continue to support our Alliance Partners and accountants to grow their business advisory revenue and attract new SME clients.

Plans are in place to release new automated business advisory solutions and more industry specialisation packages over the next two to three years.

I encourage you to review our new online Risks SWOT Workshop and Report solution so you can help your SME clients minimise their business risks and grow your advisory revenue.

The Report cannot be produced without the support of our Alliance Partners. On behalf of Bstar I would like to thank everyone who provided us with input into this year’s Report.

We would also like to thank this year’s sponsor, BT Financial Group for their support in launching this report.

I recommend you share these insights with your partners and staff.

You can start by taking one simple step: use the **Strategic Innovators Growth Checklist** included in the Report to assess how your practice is positioned for future growth.

We hope you enjoy reading this year’s Report and welcome your comments and feedback.

Yours sincerely,

**Grant Bloxham**  
CEO  
Bstar Pty Ltd

# Executive Summary



## This year's theme is Growth

Currently, the primary concern of Accountants is growth - in all aspects. However, there is an increased level of urgency to achieve this. Practices that haven't made changes to promote growth and have remained with the traditional model, are seeing profits fall.

Fuelling this urgency, is the decline in profits which in turn is reducing partners' drawings. This is having a flow on impact on partners' lifestyles. Only **60%** of the accountants surveyed believe their current cash flow is sufficient to fund their lifestyle.

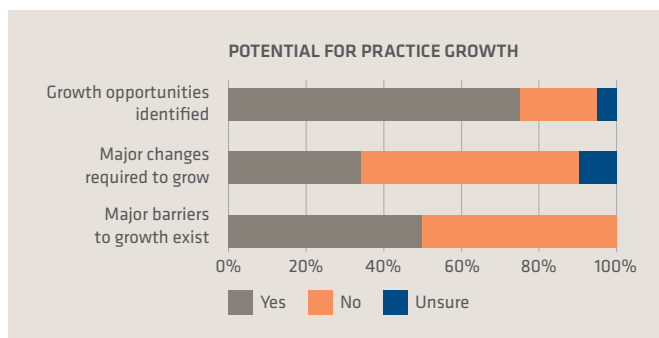
My main concern is our failure to adequately implement the important, because of the constant focus on the urgent.

In the Strategic Threats section we discuss three major strategic threats facing accounting practices. Developing out of the 2016/17 Theme of *High Awareness, Low Action*, we can see two distinct groups of accounting practices emerging:

- 1. Strategic Innovators** are excited by the opportunities, they are taking action, changing their practice model and are well positioned to grow.
- 2. The Majority** are still hesitating, sceptical of the need to change, or concerned about the risk of failing. These practices run the risk of being left behind.

## Our Respondents

This year we have focused on obtaining the views of **Strategic Innovators**, from across Australia. These are experienced accountants, with over 10 years' experience, who are principals of practices that have made the decision to change their operating model. They are at various stages of implementation, with a focus on growth.



We believe that one of the best ways to understand accountants is to listen to what they say. We have included comments and quotes from our respondents throughout this year's Report.

## Growth, Growth and More Growth...

Accountants like hearing from their peers. In an expanded section on how Strategic Innovators are growing their practice, the Report features **real life ideas, growth plans, opportunities and comments** on:

- New revenue streams that are easy to introduce;
- Strategies to acquire new clients;
- The best way to engage clients to pay for advisory services;
- Four advisory services that staff are confident in delivering;
- Why merger and acquisition is back on the radar.

Accountants can also check their progress by completing the **Strategic Innovators Growth Checklist**.

## Trend snapshot

Bstar's Accounting Research Reports have shown how the accounting industry has been impacted by significant levels of change, both internal and external over the last four years.



## 2017/18 Strategic Threats



### FAILURE TO ACT IS NOW A STRATEGIC THREAT

Quite simply, the top threat facing practices is failing to act. **The key issue is whether the practices who most need the benefits of a new model can make changes.**

**Strategic Innovator** practices that are adopting new models, and changing their offering are already experiencing growth. Those who are well advanced with their implementation are prospering.

However, the **Majority** of practices are reacting to declining revenues by becoming more conservative and risk averse. They are not prepared to take risks with existing revenue. They want certainty of increased revenue before they will change. They must weigh the risks of continuing decline against the risk of making changes.

## Top Business Concerns

The Report provides a snapshot of Business Concerns, illustrating respondents' top concerns, weighted against their urgency to act. What is interesting about this year's list of the top business concerns is how similar they are to last year - in fact what hasn't changed.

The Top Business Concerns section also includes a comparison of the top concerns from the last three years' Reports.

### PRACTICES ARE MOVING TO ATTRACT NEW CLIENTS, BROADEN THEIR SERVICES AND FEE BASE.

**Attracting High Value Business Clients** is the #1 business concern, unchanged from last year. Practices that have made the decision to change their model have lower levels of stress and concern - because they can see increased growth and new clients. Even where practices are still going through the process of implementing new models, the new focus is creating a more positive outlook.

### DECLINING FEE REVENUE IS REACHING A TIPPING POINT.

**Declining Fee Growth and Profit Concerns** is the #2 Business Concern, up from #3 last year. Most practices have already moved to reduce costs, but principals now understand that will not ensure survival. To prosper, practices must act to increase revenue - this year's dominant theme is the need to grow.

### LOWEST CONCERNS

Respondents are not particularly concerned about issues relating to their existing clients - or at least do not rate them as urgent. Their lowest concerns were:

1. Loss of clients due to key staff departure;
2. Non-accounting competitors;
3. Loss of top 10 clients.



**Two in three** of Bstar's Alliance Partners believe that the one-on-one Needs Review process is the most important step to establish client engagement and the key to generating new business.

## What makes a Great Accounting Practice?

We've also asked respondents to tell us what makes a Great Accounting Practice. This year's Report contains Snapshot findings on where Strategic Innovators believe the accounting profession is heading.

Strategic Innovators are also thought leaders - **92%** of Bstar Alliance Partners believe that the future of professional advice lies with Predictive Analysis and Advice.

Bstar is responding to these needs by developing a predictive business valuation algorithm, scheduled for release in the 2019/20 financial year.

## How are Strategic Innovators growing?

Strategic Innovators are substantially growing their practice by playing to their strengths. A key starting point is embracing advisory solutions that are easy to implement and rely on accountants' core financial and analytical skills.

The other key element lies in understanding clients key needs and ensuring solutions address these. Specialisation in particular industries or services was also a preferred approach.

Respondents are looking for innovative ways to attract new clients. We discuss some new and different approaches being used by Strategic Innovators, as well as providing **practical examples of growth plans**. The Report features five **proven growth strategies** being implemented:

1. Ideal clients - SMEs/MEs and High Net Worth Individuals;
2. Delivering sounding board services;
3. Introducing Family Office Services;
4. Appointing internal product specialists;
5. Expanding industry specialisation services.

### KEY DEFENCE

To combat strategic threats from new competitors such as 'big data' companies, Strategic Innovators are acting first and upgrading their relationship with 'ideal' clients from 'trusted' advisor to **essential** advisor.

## Advisory Solutions that SMEs want to buy

Strategic Innovators have a clear understanding of their clients' needs by including an annual client needs assessment in their advisory services packages. They are evolving their service offering to meet the current needs and urgent concerns of their SME client base<sup>1</sup>:

- #1 Business Planning;
- #2 Succession Planning;
- #3 Protection for Business and Family Assets; and
- #4 Declining Sales, Profit and Cash Flow.

“There is so much disruption in so many industries, we need to look forward, rather than to the past to help our clients minimise their risk and plan for the future.”

We have created a new section highlighting successes. The section 'What Advisory Solutions are SMEs Buying?' details **101 SME advisory services engagements** from small to medium sized practices, and the scale of fees charged.

1. Refer to Bstar's 2016/17 SME Research Report for these statistics and more information



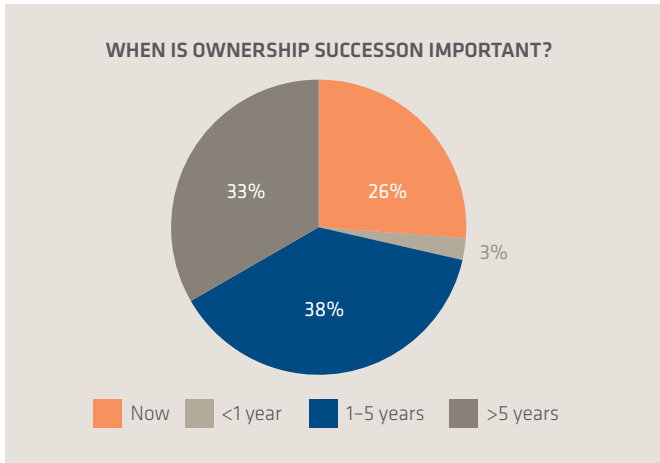


## Succession

Most respondents are not thinking about exiting their practice - **71%** are not concerned about Ownership Succession in the short to medium term (see graph). This is partly due to their age, as most are under 55 years of age.

Their focus is on growing their practice, introducing new services and developing additional revenue streams.

They are unable to retire, as they have not attained financial independence. Only **one in three** have built sufficient funds for retirement outside their practice. **More than half** indicated they would rely on the sale of their interest in the practice to finance their next business venture or retirement.



## Support for Strategic Innovators

Strategic Innovators are looking for new ways to grow. They are pro-active and actively seek support from their own trusted network of advisers and industry experts.

Bstar is supporting Strategic Innovators to grow their business advisory revenue and attract new clients by providing:

1. Automated Business Advisory Solutions:
  - a. Business Valuation Tool;
  - b. Risks SWOT Workshop and Report;
  - c. Asset Protection/Estate Planning Engagement Tool (under development).
2. More Industry Specialisation Packages - up to 16 new industry specialisation packages are to be delivered over the next three years.

BT Panorama's solution can help accountants build capacity in their business, and streamline administration while providing clients with an intuitive investment framework to keep on track.

Whatever the business model, accountants and their clients can access the benefits of BT Panorama and tailor the solution to their business and client's needs. A Cloud based solution integrating smart technology to save time and help clients start and track their investment and wealth goals. Panorama provides one place to access reports and exchange data with accounting systems, making year end compliance simple.

# Our Respondents



This year's report concentrates on principals of practices that are at various stages of changing their practice model. These respondents have made the decision, with their partners and staff, to commit to change.

Respondents come from small, medium and large practices throughout Australia, and the majority have more than ten years' experience. They are focused on their career and growing their practice, and are motivated to succeed. Some practices are just starting the process, others are in their second and third year of implementing change.

Notably, respondents include those who have successfully implemented advisory services within their practice<sup>2</sup>. We believe that their experience can also inspire other accountants to take the next step, and change their approach.

## Strategic Innovators

We believe these respondents have made the decision that they do not want to be part of the **Majority** – instead they want to be **Strategic Innovators**. For more information on these terms, refer to the breakout box 'Strategic Innovators and the Majority'.

We asked respondents what they aspire to, that is, what makes an accounting practice great. We have detailed their responses in a new section, 'What makes a Great Accounting Practice?'

Strategic Innovators are not complacent. They are looking for ways to improve their performance, and increase efficiency. The clearest view of this can be seen in how respondents rate their own practice's performance on key indicators – and the relatively small number who regarded themselves as 'Top 20%'. This keeps them looking for new ideas and strategies, striving for new clients, and ways to grow.

A lot is underway. We are working with clients and centres of influence to gain opportunities to meet new prospects. We are looking for opportunities to value add services to existing clients. We are also in discussion with two smaller sole practices to merge with our practice

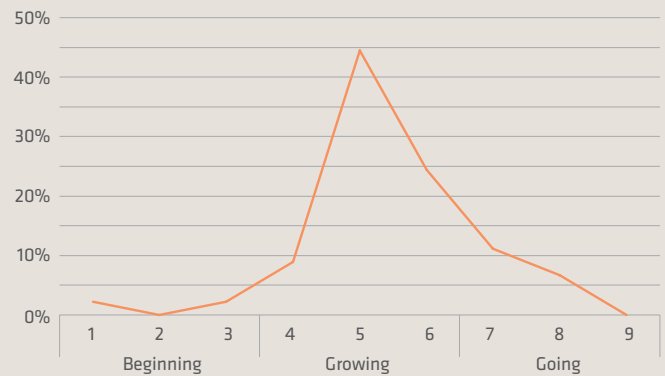
The majority of respondents are under 55 years, concentrated on their career, and in their 'growing' phase (see graph). **71%** are not concerned about Ownership Succession in the short to medium term.

They are not financially independent and there is significant motivation to grow, as **40%** don't have sufficient cash flow to fund their existing and future lifestyle. Only **one in three** have sufficient funds, outside their practice, to enable them to retire.

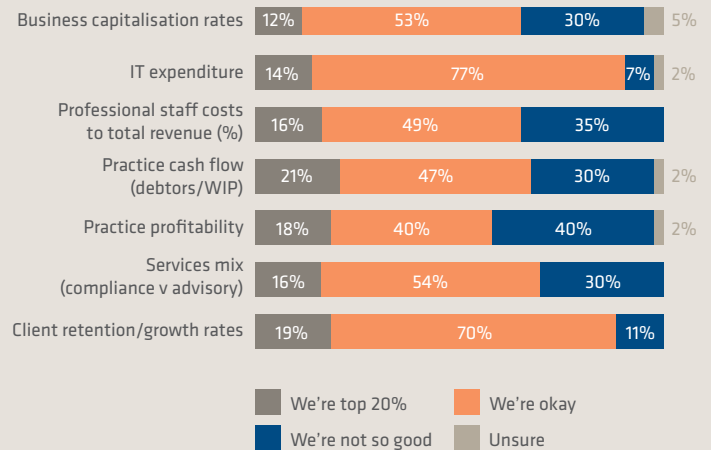
As a result, respondents are focused on growing their practice, and its value.

2. For examples, refer to recorded interviews with Tim Lane and Drue Schofield on Bstar's website ([www.bstar.com.au/home/events](http://www.bstar.com.au/home/events))

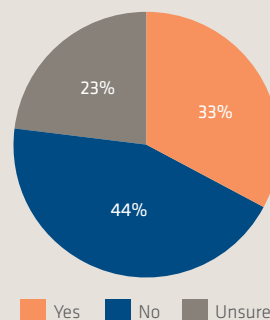
STAGE IN PRACTICE LIFECYCLE



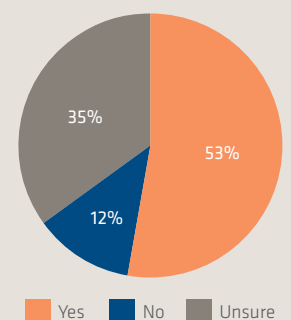
HOW DO STRATEGIC INNOVATORS RATE THEIR PRACTICE?



DO YOU HAVE SUFFICIENT FUNDS\* TO FUND YOUR RETIREMENT? (\*outside the Practice)



WILL YOU SELL THE PRACTICE TO FUND YOUR NEXT LIFE STAGE?



## PRACTICE VALUE

While the majority of respondents have no short term plans to stop practicing, the value of their equity in the practice is very important. The practice is their main source of income, and often their major asset.

Significantly, only **12%** of respondents indicated they would not be relying on a sale of their equity to finance their next business venture or retirement.

**60%** of respondents know what practices are currently selling for, and **51%** know how their practice value compares to the industry average and benchmark.

However, **only 40%** were confident that a sale of their interest in the practice would meet their expectations.

## LIFESTYLE & PERSONAL PLANNING

The majority of accountants are happy, healthy and enjoy their work.

Within our group of respondents, **83%** enjoy their work, and **73%** spend time doing the things they enjoy, slightly lower than in previous years.

**76%** of respondents pay attention to their diet and overall health, similar to the last two years.

In similar results to previous years, the majority of respondents have also taken steps to organise their personal affairs:

- **73%** have an up-to-date will;
- **70%** have an enduring power of attorney;
- **60%** have an estate plan; and
- **53%** have a personal wealth management strategy in place

## Practice Planning

Consistent with being Strategic Innovators, the majority of respondents were well organised:

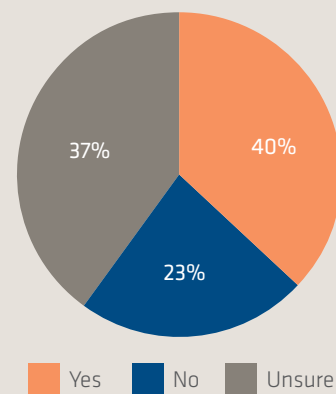
- **85%** indicated that their partnership or shareholder agreements were up-to-date and current (2016:25%);
- **70%** of respondents had buy/sell agreements or succession plans in place to protect partners and their family interests in the event of ill health (2016:40%);
- **83%** have business and key person insurance in place (2016:68%), and
- on a positive note, **70%** of those arrangements include TPD for life insurance policies and take into account capital gains tax risk on death (2016:34%).

## KEY PERSON RISK

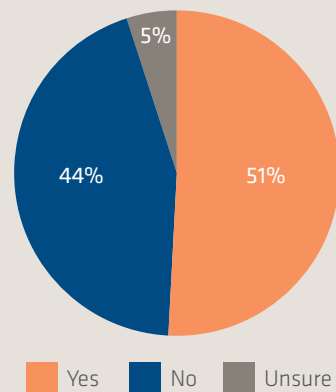
A clear majority of respondents were not particularly concerned about key person risk within the practice and expressed little urgency around their own key person risk. This suggests that the risk is being managed or regarded as under control.

Just over half (**56%**) respondents believe their practice can operate without them and there were also low levels of concern associated with possible departures of key professional staff, and client loyalty. Refer to the Snapshot of Business Concerns and 'What Are Accountants Least Concerned About' for more information.

### WILL YOUR PRACTICE VALUE MEET EXPECTATIONS WHEN YOU SELL?



### DO YOU KNOW HOW YOUR PRACTICE VALUE COMPARES TO INDUSTRY AVERAGE & BENCHMARK?



# Strategic Innovators and the Majority

There has been a considerable amount of research into the behavioural science relating to the adoption of new ideas and innovations, dating back over 100 years.

Everett Rogers, in his book *Diffusion of Innovations*<sup>3</sup>, (first published in 1962) identified 5 categories of adopters, defined by the degree to which a person is relatively early in adopting a new idea within a group. Phrases such as 'early adopter' have now become mainstream.

Rogers divided adopters into 5 groups, based on the time at which they would adopt an innovation. He found that adoption was distributed in a normal 'bell curve' over time.

He described the typical characteristics of each 'Ideal Type'. Rogers also provides considerable analysis on what influences the decision by individuals to implement a new idea or innovation.

Adoption of new ideas increases over time, as shown in the bell curve diagram below. Bstar has witnessed an increased level of change by accountants since the publication of our first Accountants Research Report in 2014.

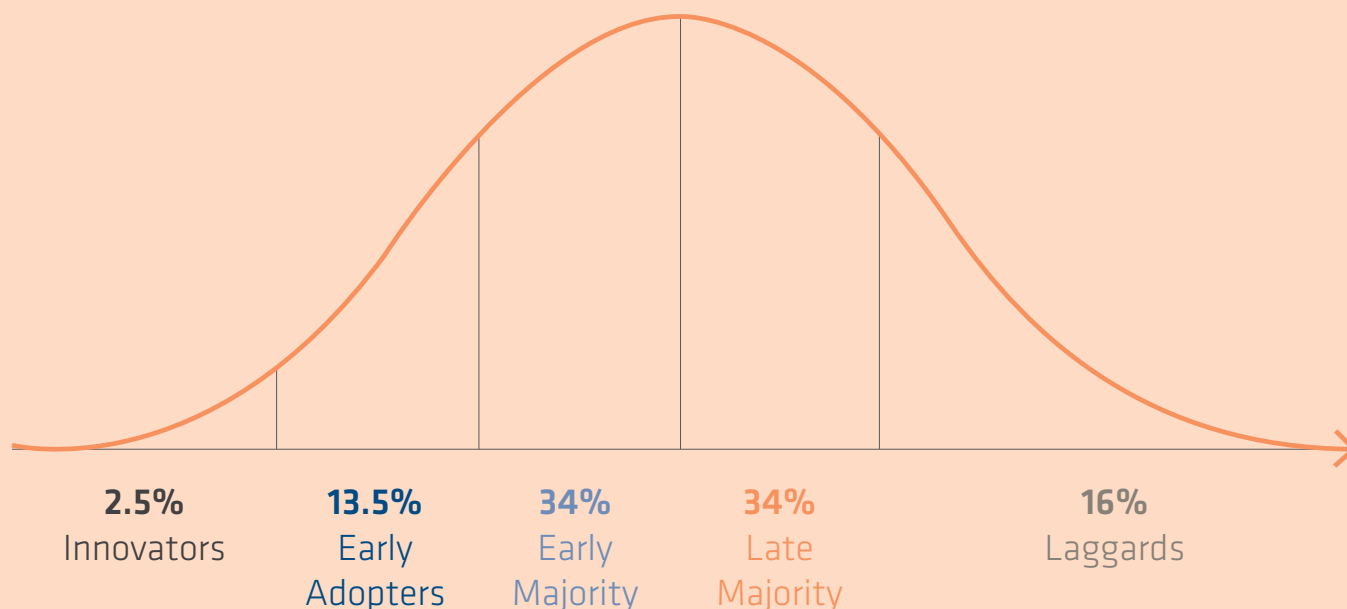
We have used Roger's groups as a starting point to categorise the current position of practice within the accounting industry.

We have used two broad categories in our Report:

- the **Strategic Innovator** – who is a relatively early adopter and roughly equivalent to Roger's Innovators and Early Adopters.
- the **Majority** – this is our term for those who delay adoption, equivalent to Roger's Early Majority, Late Majority and Laggards.

## ADOPTER CATEGORIZATION, ON THE BASIS OF INNOVATIVENESS<sup>4</sup>

\* The data shows the number of individuals in a social group adopting the innovation each year.



3. Rogers, Everett M. *Diffusion of innovations*. New York: Free Press, (First published in 1962) Particular references are made to Chapter 7: Innovativeness and Adopter Categories (pp267-297. 2003, 5th Edition).

4. Rogers, Everett M. *Diffusion of innovations*. (2003, 5th Edition). New York: Free Press, at page 281

# Strategic Innovators Growth Checklist

<b>Are you a Strategic Innovator? Try our quick Growth Checklist</b>	Yes	No	Unsure
<b>Practice Vision and Future Direction</b>			
<i>Partner Alignment</i> - Are all partners aligned in terms of the future direction of your practice?			
<i>Internal Product Trust</i> - Have you established sufficient IPT so that all staff are confident & support the practice's advisory services offering?			
<i>Cloud Technology</i> - Does your practice have a process to introduce advisory services to clients at the same time as accounting and compliance fees are reduced by clients moving to Cloud based systems?			
<i>Trusted External Experts</i> - Do you have access to an external network of experts with complementary skills to support the advisory services teams and meet client needs?			

## Fee Revenue

<i>40% Benchmark</i> - Does your practice meet the benchmark of 40% revenue from advisory services?			
<i>Family Office Services</i> - Are you using this opportunity to generate 5 streams of new revenue? 1. Management Accounting 2. Accounting and Taxation 3. Advice - Tax Planning, Business Advisory & Financial Planning 4. Specialisation 5. Asset Protection/Estate Planning			

## Best Practice and Leveraging Staff Capabilities

<i>Skilled Staff</i> - Do your staff have the right skills to deliver 'operational' advisory services, increasing leverage opportunities?			
<i>Creating Capacity</i> - Is your practice creating efficiencies through systemisation and/or outsourcing?			
<i>Leverage</i> - Are 60%-80% of advisory service solutions being delivered by your professional staff or future leaders?			
<i>Staff</i> - Have you developed plans that focus on attracting, retaining and motivating staff with advisory services knowledge and customer management expertise?			

## New 'Ideal' Clients

<i>'Ideal' Clients</i> - Have you identified your 'ideal' client(s) and do you have a clearly defined service offering for each client segment?			
<i>Sounding Board Services</i> - Does your practice have the capability to deliver them to SMEs/MEs and High Net Worth Individuals?			
<i>Industry Research and Benchmarking Solutions</i> - Is your practice using them to attract new 'ideal' clients in your targeted sector?			
<i>'2 Adviser Model'</i> - Do you know how you can promote this to attract new clients to your practice?			

## Industry and Trusted Experts

<i>Multi-Disciplinary Solutions</i> - Are you partnering with industry experts to provide 'best of breed' services to your clients?			
<i>Referrals from your Network</i> - Are your trusted team of experts actively referring 'ideal' clients to your practice?			
<i>Preferred partnerships</i> - Do you collaborate with business, industry or franchise groups to offer improvement services to their members?			

# Strategic Threats

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## 1. Sitting Still / Failure to Change

Last year we identified a strong trend of *high awareness but low action*.

Accountants were aware of the developments impacting their practice and industry. However, despite their level of awareness they had not taken action. The changing face of accounting, increased automation and a shift away from tax and compliance towards advice, was seen as a threat rather than an opportunity.

This trend continues and is a major strategic threat to those accounting practices who have not changed with the industry. In simply doing the same thing, while clients and the business environment in which they operate continue to change and evolve, traditional accounting practices will struggle to maintain profit margins and in some cases, struggle to survive.

This year we have taken input from a variety of practices that have made the decision to change their operating model, and implement change. These respondents see change as an opportunity rather than a threat. We are describing them as 'Strategic Innovators'.

Respondents are achieving growth by providing other services such as business advisory, SMSF, finance, financial planning, specialisation or forming a multidisciplinary practice. These practices are at different stages in their implementation, but they are changing. We have described this in more detail in the 'Our Respondents' section.

### KEY DEFENCE

Exploit the opportunities to change, by introducing new services and attracting new 'ideal' clients - Become a Strategic Innovator.

Bstar has observed that accountants are reacting to increasing financial and work pressure by being more conservative. They are not prepared to take risks with existing revenue. They are still sceptical of the need to change their model. They are waiting for further proof of the benefits, whether from peers or industry sources, before they will commit resources to change.

These practices (the Majority) have not yet started to adapt to external changes. To remain viable, these practices must weigh the risks of continuing decline against the risk of making changes.

We need to get away from low profit compliance clients. It's easy to be busy, it's not easy to make money.

5. Rogers, Everett M. *Diffusion of innovations*. (2003, 5th Edition). New York: Free Press, at page 295-296

6. Analysis in conjunction with SV Partners *Commercial Risk Outlook Report* dated March 2017, using the same definitions of risk. See [www.svpartners.com.au](http://www.svpartners.com.au) for the Report, which is published quarterly

The gap between Strategic Innovator practices and the Majority is widening. The unfortunate reality is that for some practices, their traditional fees have declined to such an extent that they have few financial reserves.

This is what Rogers called the 'Innovativeness-Needs Paradox'<sup>5</sup>; where those practices who most need the benefits of a new model are holding back and resisting change. The paradox suggests that the practices at highest risk may be among the last to change their model. Recent analysis of the accounting industry<sup>6</sup> has suggested that currently 1% of practices are at high risk of failure, with another 18.6% in the higher risk bands.

## 2. The most common mistake

Our 2016 Report identified clients' expectation of lower compliance fees as a strategic threat. The use of technology, outsourcing and real time Cloud technology has changed the way clients interact with their accountants. Accountants have been encouraging clients to adopt 'Cloud' accounting over the past 5 years. Clients understand that accounting practices have been able to lower their internal costs, and expect those efficiencies to be passed on as lower fees.

### KEY DEFENCE

Use the Needs Review Process to discuss value-adding solutions **at the same time** (Year 1) as SME clients adopt the Cloud.

### HOW TO MAINTAIN FEES AFTER THE SHIFT TO THE CLOUD

The most common mistake made by accountants is not using the move to the Cloud, and reduced fees, as an opportunity to introduce new, value adding services to clients. Accountants can take a pro-active, leadership role by discovering SME clients' most urgent need and then offering solutions.

Once fees have dropped, it's really, really difficult to increase them again.

Timing is vital. The best time to introduce new services is before clients have 'booked' their fee saving. Respondents are reporting success when they propose new value-adding solutions at the same time (Year 1) as their SME clients are adopting the 'Cloud'. The regular client meeting for tax or compliance becomes an opportunity to do more for the client.

To be absolutely clear, each of these clients need help. You're not selling something they don't need, you are actually recommending something they do need. They may not understand they need it, or where they need it, yet. You have to have the conversation, to demonstrate where the value is.



### 3. 'Big Data' groups are a new threat

There is an emerging competitive threat for accountants that are aimed at two distinct client groups - consumers and SMEs.

#### GOALS ORIENTATED ADVICE FOR CONSUMERS

Corporate wealth management companies, major banks and large insurance companies are focused on developing new ways to target consumers with goals orientated advice. These groups are investing significant resources to develop breakthrough products or applications. They are aiming to target a broad consumer base by providing automated, low cost products and advice.

We want our shopfronts and advisers' offices to be more like Apple stores.

#### 'BIG DATA' GROUPS

Global 'big data' holders are also aiming to increase their footprint in Australia. Consumers are already becoming used to receiving targeted advertisements and recommendations based on their online browsing. Facebook, Amazon, Google and Microsoft are all seeking new ways to leverage their data on SMEs and individuals into revenue producing services. Their data provides insights into individual's needs and already allows personalised recommendations.

Predictive analytics is the future of business advisory services and solutions.

It feeds into the Big Data trend that smart advisors are taking note of.

If these corporate giants were to move into SME advisory solutions, they have the scale and resources to swamp traditional accounting practices.

#### KEY DEFENCE

Accountants should aim to upgrade their relationship from 'trusted adviser' to 'essential adviser' and become the primary point for all advice, not merely accounting.

#### CONCENTRATE WHERE YOU HAVE AN ADVANTAGE

The accountant's best defence to this threat is to concentrate their efforts in areas where 'big data' groups do not have an advantage. Rather than providing automated, low cost products and advice, accountants should look at services which are based on face-to-face contact, which are highly valued by the individual client and justify a premium price.

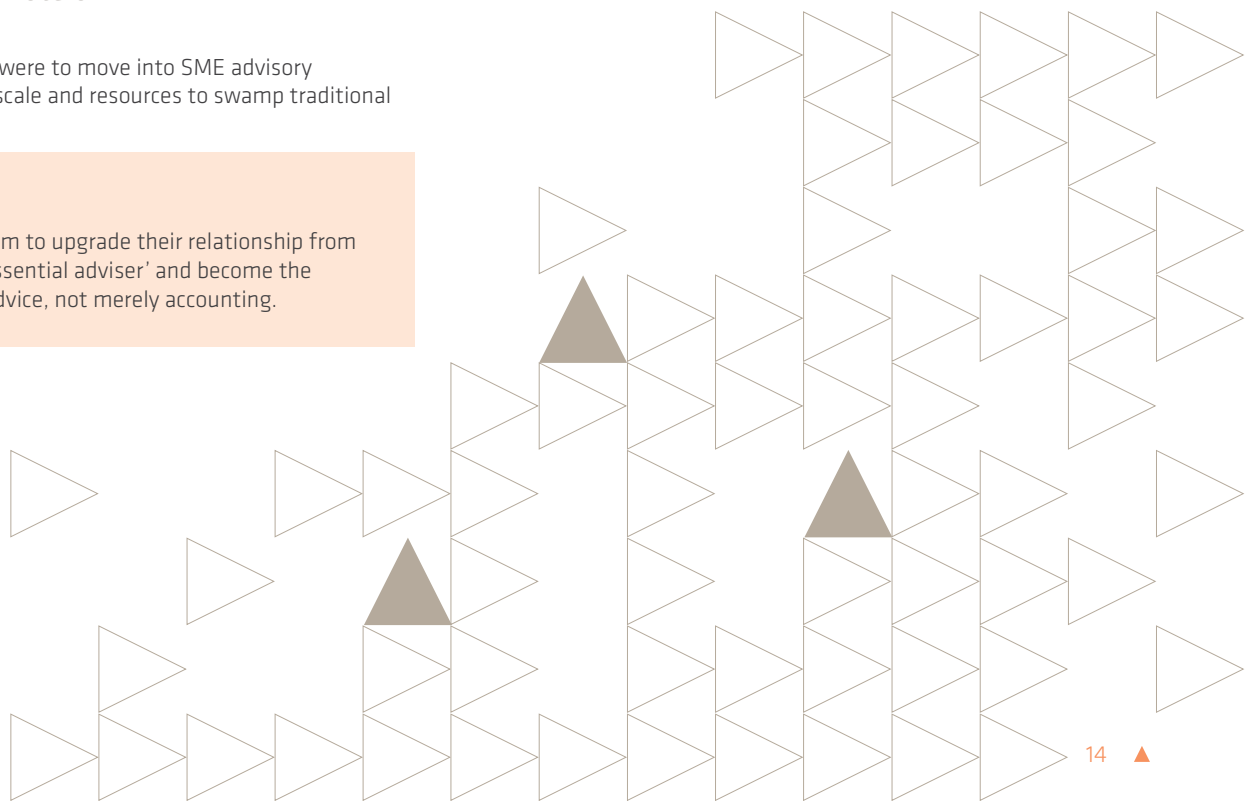
You have to believe what you are offering the client is valuable and that you are worth your fee.

As a result, Strategic Innovators are developing products and services for SMEs, MEs and High Net Worth Individuals which are based on strong and deep relationships. By developing an approach that emphasises the client as an individual, these practices aim to provide solutions that support their target client through their entire business life cycle, and into retirement.

An example of this approach is the introduction of Family Office Services, described in 'How are Practices Growing?' section.

#### UPGRADE TO 'ESSENTIAL' ADVISER

Strategic Innovators are using the Risks SWOT Workshop & Reporting Solution to build understanding with their clients. It is the #1 most common purchased solution by SME clients, and a stepping stone to other services. For more information refer to 'What Advisory Services are SMEs buying?'

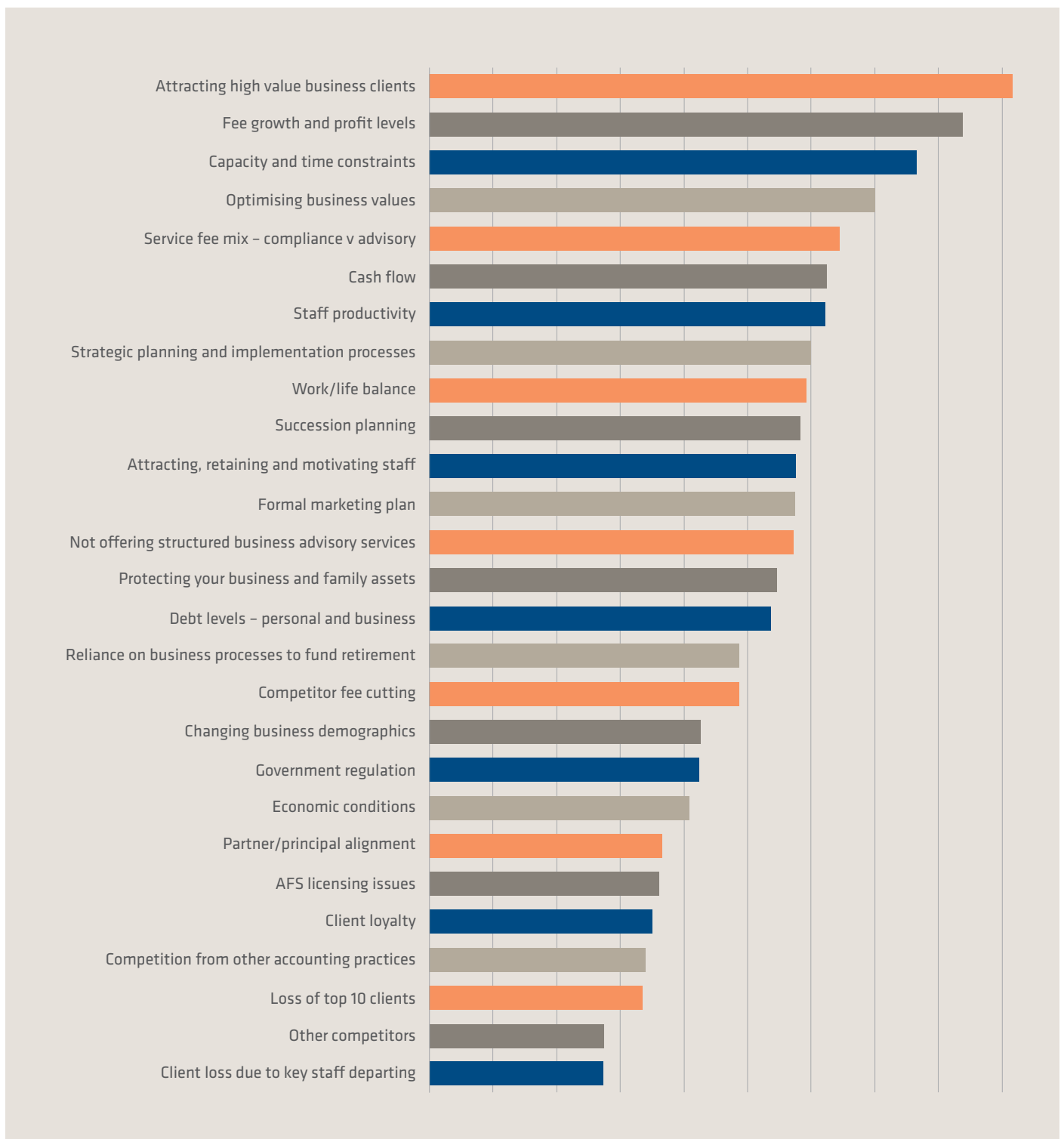


# Business Concerns



## Snapshot of Business Concerns

Respondents were asked to rank their level of concerns on a list of key issues, together with their need to act on the issues. The table below provides a summary of the business concerns, weighted for need to act, ranked in order of highest to lowest concern.



# Top Business Concerns

## What's changed (and what hasn't)

What is worth noting about the top business concerns is how similar they are to previous reports.

2014

### DISRUPTION

1. Fee Growth & Profit Returns
2. Attracting high value business clients
3. Services Fee Mix compliance – advisory
4. Capacity & Time Constraints
5. Optimising Practice Value

2015/16

### RESTRUCTURING & COST CUTTING

1. Fee Growth & Profit Returns
2. Capacity & Time Constraints
3. Services Fee Mix compliance – advisory
4. Attracting high value business clients
5. Optimising Practice value

2016/17

### GROWTH: HIGH AWARENESS, LOW ACTION

1. Attracting high value business clients
2. Services fee mix – compliance – advisory
3. Fee growth and profit returns
4. Capacity and time constraints
5. Optimising practice value

2017/18

### GROWTH: 2 DISTINCT ACCOUNTING PRACTICE GROUPS

1. Attracting high value business clients
2. Fee growth and profit returns
3. Capacity & time constraints
4. Optimising practice value
5. Services fee mix – compliance – advisory

## It's All About Growth.

One theme sums up the top business concerns in this year's report - growth. **9 in 10** respondents had growth as an immediate (**73%**) or short term (**18%**) focus. A majority (**58%**) of respondents are also regularly allocating time to strategic and practice planning.

My main concern is our failure to adequately implement the important, because of the constant focus on the urgent.

In our experience, change implementation is more successful when plans are documented. **Three in four** respondents have plans for growth in their practice and **60%** of those plans were formal, documented plans.

We have taken our Budget and turned it into a 3 year forecast and full plan.

We have a clear breakdown of revenue budgets by service line.

This is the first stage.

Now we are equipping our team with the tools necessary to deliver the growth plan.

**Attracting High Value Business Clients** was the **#1 Business Concern**, unchanged from last year. It was rated both as the highest concern, and the most urgent in terms of need to act.

How are we going to grow?

We have to win (net) high value clients!

Strategic Innovators are gaining new clients. They are also targeting their 'ideal' clients for growth, by upgrading relationships with existing 'ideal' clients from 'trusted' advisor to 'essential' advisor.

We discuss their strategies and plans in detail in the 'How are Practices Intending to Grow?' section

**Fee Growth and Profit** was ranked as the **#2 Business Concern** - and **46%** of respondents indicated an Urgent need to act on this concern. Fuelling this urgency, the ongoing decline in compliance work and fees is reducing profits. A significant number of respondents were not happy with their practice profitability, with **4 in 10** respondents rating their own profitability as 'Not So Good'.

There is a subtle but noticeable increase in urgency around practice operation issues. Cash flow has become the **#6 Business Concern**, moving from 9th position last year and **30%** of respondents rate their practice cash flow as 'Not So Good'.

Reduced profits are reducing partners' drawings. This is having a flow on impact on partners' lifestyles. There is significant motivation amongst respondents to grow their practice, as only **60%** of the accountants surveyed believe their current cash flow is sufficient to fund their lifestyle. The result is a strong alignment within practices, with **81%** of respondents saying that all principals are motivated and focused on practice growth.

**Capacity and Time Constraints** was ranked by respondents as the **#3 Business Concern**, moving up from #4 last year. More than 1 in 3 respondents indicated that they had an Urgent need to act on the issue. Overwhelmingly, a lack of capacity was identified by respondents as the most common barrier to achieving growth.

Recruitment of new staff was one direct way to increase capacity, however many respondents indicated that they were experiencing difficulties in finding the right people, particularly those with client relationship management and advisory skills.

Our major barrier is that the partners are too busy.

**75%** of respondents have identified growth opportunities for their practice, but **half** of respondents indicated that there are **major barriers to growth** within their practice. It was identified as a source of frustration by many respondents. Other strategies to increase capacity include offshoring, mergers and acquisitions and increased use of technology.

The 'Major Barriers to Growth' breakout box contains comments on barriers described by respondents.

**One third** of respondents indicated that, to achieve growth, they needed to make major changes in their practice. Once again, the most common change mentioned related to increasing capacity, and 'making more time', particularly for already busy partners and principals.

The 'Growth Requires Change' breakout box gives examples of other changes respondents are working through.

We have to get Partners out of the day-to-day grind.

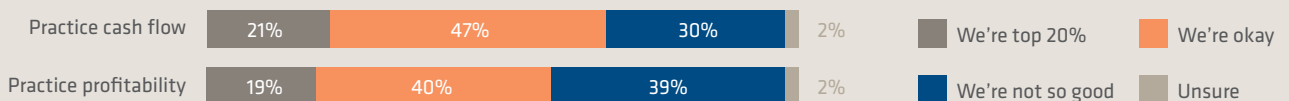
Staff Productivity is the **#7 Business Concern**, and this concern is closely linked to the concern about capacity and time constraints.

A lack of client manager capacity is holding us back.

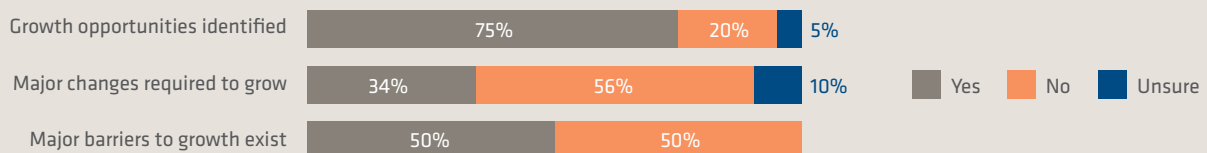
**63%** of respondents believe they are fully utilising technology to improve practice efficiency, and **30%** are using outsourcing to increase productivity. Outsourcing, particularly offshoring, was seen as a way to improve efficiencies in the delivery of tax and compliance services, whilst reducing costs.

Another approach was to develop the skills of existing staff. There were a number of ways respondents were using existing staff resources to create more capacity. A common approach was to **leverage** senior staff, particularly for delivery of advisory services. Refer to the 'Staff and Strategies' section for more information.

#### PROFITABILITY AND CASH FLOW



#### POTENTIAL FOR PRACTICE GROWTH



## GROWTH REQUIRES CHANGE

One third of respondents indicated that they needed to make major changes to their practice in order to grow. Here are some examples of the changes required:

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We have a growth plan, but we need to implement the plan. We also need help with marketing the growth plan.

---

The biggest change we need to make is increasing operational efficiency. That's the key to all the other changes we want to make.

---

We need to reskill senior staff to be able to deliver business advisory services which are meaningful to clients.

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The challenge is creating more time. Our plan is to do it with downwards delegation of work. We need more support from our senior staff.

---

Currently, our clients have too much reliance on Principals. We have to change that. We are still working out how. I believe our staffing needs to change, and recruitment is another challenge.

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Our plan is to grow through merger or acquisition. That inevitably means change.

---

We are working on recruitment of qualified staff at all levels. We have to streamline quality assurance. We also need to train our staff to deliver a consistent result.

---

## WHAT ARE THE MAJOR BARRIERS TO GROWTH?

Half of respondents indicated that they believed there were major barriers to overcome in achieving growth in their practice. While the most common barrier identified was Capacity and Time Constraints, here are some examples of other barriers:

---

It's all of it: We need more capacity and finding good qualified staff is a real challenge. External pressures like increased Government Regulation and the Economy aren't helping.

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Our barriers are internal. What we lack is commitment, and enough time allocated to growing.

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We have high market penetration already [in a particular service], so we need to find growth in other areas. That is challenging us.

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We are struggling to get an appropriate team together, with the right skills, while managing our operating costs.

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Client Fee resistance is a major barrier we have to overcome.

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We suffer from a lack of skills to deliver business advisory services.

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There's some resistance to undertaking business development work by partners and senior staff.

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We need to transition Management Structures within our business to allow us to grow.

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Leveraging staff – we know we have to do it, but actually implementing it is turning out to be difficult.

---

It's internal – the capability and intent of our principals.

---

We don't have enough people who have client attraction skills in some area. We need a new approach.

---

To grow, we need more Partner capacity and Partner ability.

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Time, money and knowledge – we need more of everything!

---

## What are Accountants Least Concerned about?

Interestingly, respondents are not particularly concerned about issues relating to their existing clients - or at least do not rate them as urgent. The lowest concerns were:

1. Loss of clients due to key staff departure
2. Non-accounting competitors
3. Loss of top 10 clients
4. Competition from other practices
5. Client loyalty

### EXISTING CLIENTS AND LOYALTY

I talk about issues regularly to my clients. They may not need the service then, but when it crops up, they remember who raised it with them. We find a lot of clients come back 6 or 12 months later.

Client loyalty was not a major concern or an urgent concern. The **#1 lowest concern** was possible loss of clients due to key staff departing.

Only **39%** of respondents believed that client loyalty to key staff was a risk. This reflects the view that growth strategies strengthen client relationships, making them 'sticky' and clients are less likely to move.

When clients receive a number of services from a practice they develop multiple points of contact, building loyalty to the practice, rather than having a relationship with a single staff member. The introduction of Family Office Services, and leveraging staff were given as examples.

While Bstar has identified non-accounting competitors as an emerging Strategic Threat, this was not a concern to respondents. Non-accounting competitors were the **#2 lowest concern**, and competition from other accounting practices was the **#4 lowest concern**.

One of the most effective defences against competitors is to strengthen client relationships. We noticed a large increase, to **25%**, in the number of respondents who regularly survey their clients, either for feedback or to rate their practice service offering. This is a five-fold increase over respondents in previous years - 5%: 2016 and 6%: 2015.

Similarly, the **#3 lowest concern** was loss of the practice's top 10 clients. The focus on attracting new 'ideal' clients was seen as an effective method of reducing reliance on one or more key clients, effectively reducing this risk.

**90%** of respondents believe their clients would consider them as their most trusted adviser. There is also evidence that this year's respondents are being pro-active and initiating client contact to strengthen relationships. Bstar's Alliance Partners are prioritising this by incorporating an annual face-to-face discussions about their clients' need (called a 'needs assessment') into their advisory services packages.

### AFS LICENSING AND GOVERNMENT REGULATION

**AFS Licensing and Government Regulation** were also low ranking concerns for respondents.

While Government Regulation generally was rated as a 'Medium' business concern, unsurprisingly, respondents felt they had little control over the issue, and over **70%** indicated a 'Low' need to act.

The AFSL accountants' exemption for advising clients on SMSF was removed on 30 June 2016. From 1 July 2016 accountants who wish to give SMSF advice are required to comply with Australian Financial Services Licensing requirements. This requires accountants to have a limited or full AFSL, or be an authorised representative of a licensee.

Respondents have indicated that AFSL licensing issues are now understood and bedded down, with this issue now generally a low ranking concern - **71%** of respondents rated their need to act on this issue as 'Low'.

### LIMITED AFS LICENCE - UPDATE

As indicated in last year's Report, many accountants delayed making a decision to apply for a limited Australian Financial Services Licence (AFSL). This was reflected in a late rush to lodge licence applications, with 443 applications lodged in the last month of the transitional period. More onerous licensing requirements applied to applications made from 1 July 2016.

The total number of applications made (1,181) is small, given that there are over 10,000 accounting practices in Australia<sup>7</sup>.

To ensure there is compliance with AFSL requirements, ASIC has publicly indicated that it will be targeting advice to the SMSF sector with risk based surveillance and 'shadow shopping' visits. ASIC is also combining with the ATO to use data matching to target accounting firms active in establishing SMSFs<sup>8</sup>.

As a result of the late rush of applications, the AFSL assessment process has taken longer than originally anticipated. ASIC has indicated that assessment of all applications would be completed by 30 June 2017.

### Key Numbers<sup>9</sup>

- 1,181 applications for limited AFSLs were made during the 3 year transition period;
- 66% of applications were made in the last 4 months of the transition period (March to June 2016);
- 38% of applications were lodged in June 2016;

7. There were 11,465 accounting practices listed in the Australian Accounting Directory in April 2017. Australian Bureau of Statistics data indicated there were 9,860 accounting practices operating in Australia, employing 81,127 persons at the end of June 2002. This was the first and only ABS survey to focus solely on the Accounting Industry. Source: ABS Cat: 8668.0 - Accounting Practices, Australia

8. Deputy Chairman, Peter Kell at the 2017 SMSF Association Conference delegates in Melbourne on 16 February 2017 and similar statements to an SMSF Association event in Sydney on 19 October 2016.

9. Source: "A Message from ASIC" by Louise Macaulay and Joanna Bird, Senior Executive Leaders, Financial Advisers team, ASIC dated February 2017 (Issued through Chartered Accountants ANZ, copy available on <https://www.charteredaccountantsanz.com/news-and-analysis/news/financial-advisory-services-update-for-public-practitioners>)

# How are Practices Growing?





## Growing organically

The first objective of respondents is to **achieve organic growth** in their practice by retaining existing 'ideal' clients and upgrading their relationship from 'trusted' advisor to 'essential' advisor.

We're expecting 30% growth from our existing clients.

We've expanded our service offering by packaging our advisory and baseline services.

**90%** of respondents believe they are their clients' most trusted adviser, and **78%** believe they have sufficient relationship and product trust to engage their clients for advisory services.

Less than 1 in five respondents (**19%**) were happy with their practice Client Retention and Growth rates. This was a major decline from 41% in last year's Report. The majority of respondents are not satisfied with their efforts in this area and are looking for ways to improve, rating themselves as either 'OK':**70%** or 'Not so Good':**12%**.

We pinpoint opportunities by segmenting clients. We discuss succession planning with SME owners over 55 years and we offer business valuation services to SMEs with multiple owners.

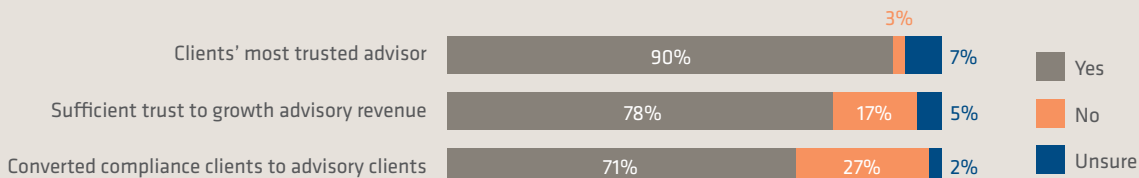
**50%** of respondents had segmented their client base to find advisory opportunities. Respondents indicated that even simple segmentation can be remarkably effective.

We segment our clients by the number of services we offer and their uptake. This process highlights the gaps in our relationships with clients, but also our strengths. Our 'ideal' client is a private or family business. We are aiming to provide the business with a minimum five of the seven services we offer.

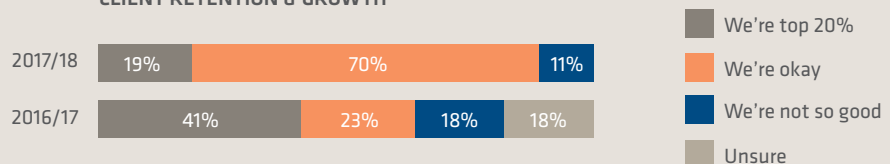
We have set up a licensed SMSF division – this will enable us to provide more services to existing clients and attract new clients.

A common approach for growth was to offer new or improved services. A major opportunity, identified in last year's Report, was to target existing clients for new services, particularly for advice services. Respondents have embraced this approach and **71%** had converted compliance clients to advisory clients and maintained or increased fees.

### GROWTH FROM EXISTING CLIENTS



### CLIENT RETENTION & GROWTH



You have to tell clients what you offer, and how it relates to them.

If you have been having regular conversations with clients, when there is a problem, they will come back and talk to you, and engage you to help them fix it.

Not all clients are Strategic Innovators who are eager to adopt new ideas. Bstar's Alliance Partners are using Client Education Campaigns to position and inform clients about their practice's advisory or specialist services.

Fee resistance to new services is a significant barrier to growth.

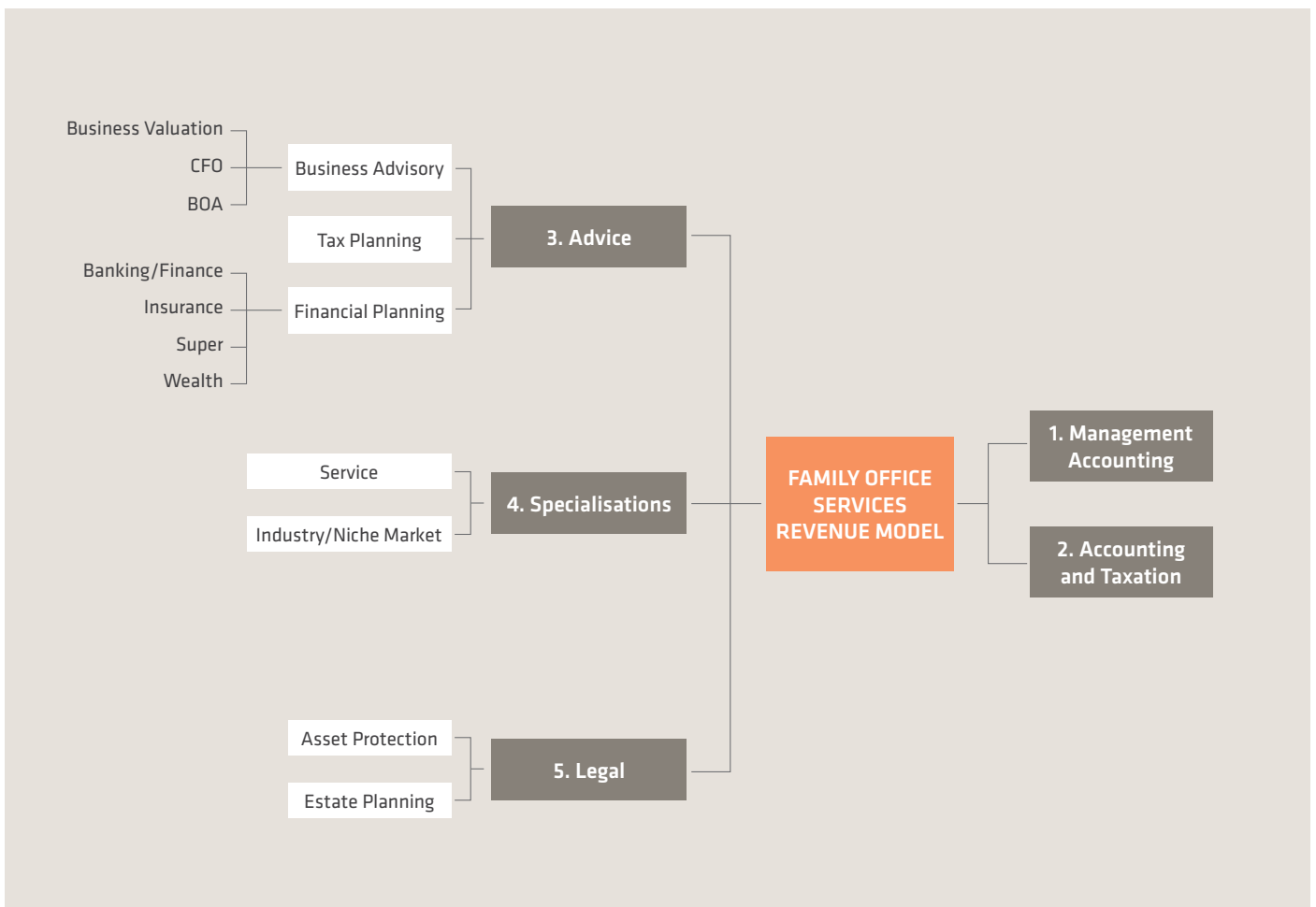
Regular Client Education Campaigns such as targeted email or newsletters allow clients time to familiarise themselves and become comfortable with new ideas and services. This was particularly important in helping overcome client barriers such as fee resistance.

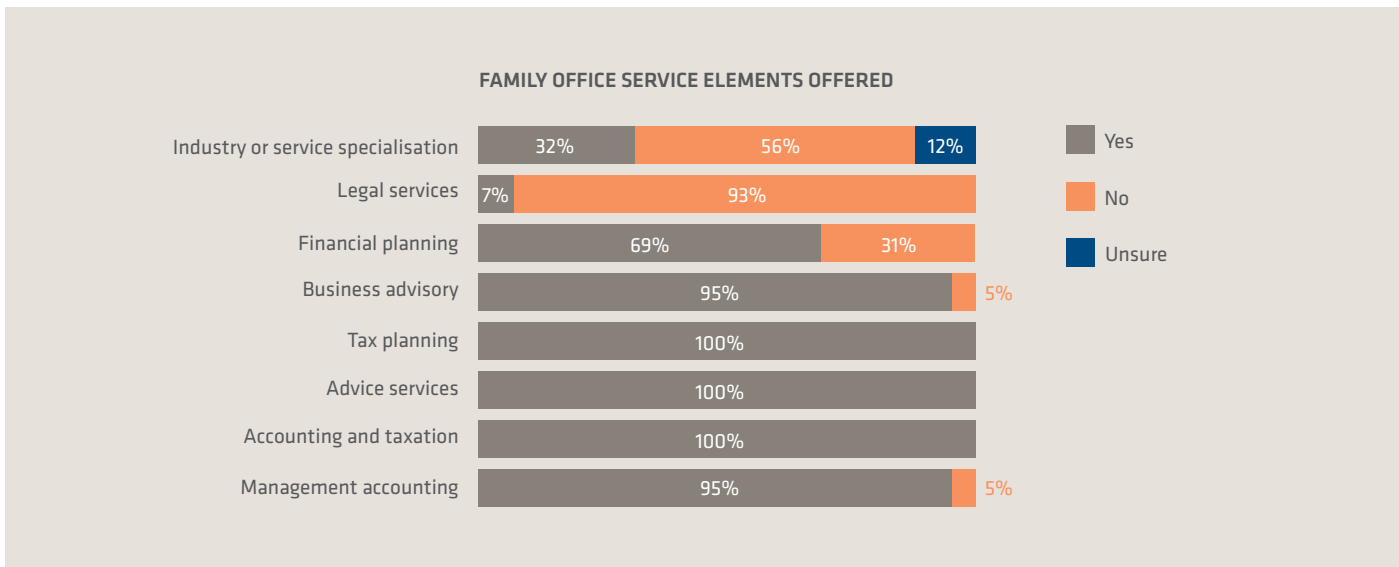
## Family Office Services, the one-stop-shop

To **grow advisory services fee revenue with existing clients**, Strategic Innovators are offering Family Office Services to their SME, Medium to Large Enterprises and High Net Worth Individual clients.

Traditionally Family Office Services were only available to extremely wealthy families, but Strategic Innovators are finding a broader market for these services. The strategy is to apply this approach to individual 'ideal' clients, by offering a broad range of services in a single package. Practices who can do this well are generating five distinct revenue streams from Family Office clients.

A major strength of these Services are that most practices already offer elements of the package (see graphic). Rather than having to develop entirely new skills, these services offer opportunities to leverage the practice's existing skills and resources by delivering them as a seamless package.





## Attracting new, 'ideal clients'

The second objective is organic growth by attracting new 'ideal' clients. Respondents were aware that merely developing or offering new services was not enough to attract new clients. They are looking for new and innovative approaches to attract new clients.

### REFERRALS

We are working with our clients and centres of influence to secure opportunities to meet new prospects.

Personal referrals are regarded as a particularly strong source of new clients. A common approach by respondents was to encourage, or directly ask for referrals from their existing clients. Strategic Innovators are more pro-active in surveying their clients, and one in four respondents was doing this regularly.

We get good referrals for our advisory services from a number of sources. The [new] clients are often acutely aware of the problem before they get to us, and already want our services.

Respondents know that they don't have to meet all their clients' needs personally, and support their role as 'trusted' and 'essential' adviser with a panel of trusted experts for additional services.

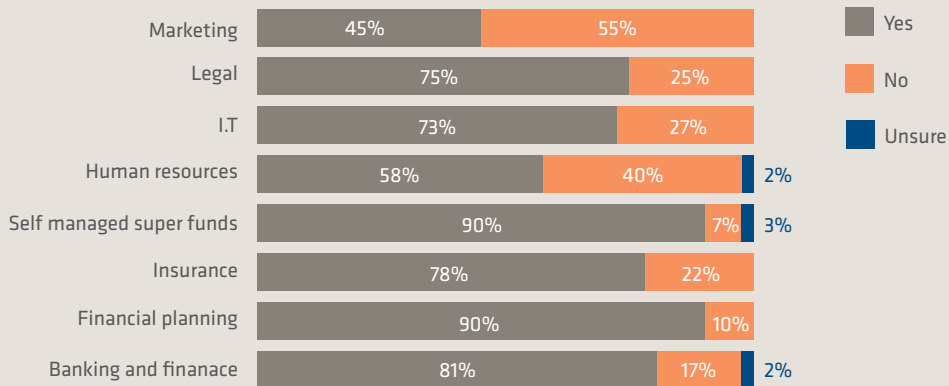
We can increase our number of business clients by two (net) per month, by using our existing referral sources.

The panel typically covers areas such as Banking & Finance, SMSF, Human Resources, IT, Financial Planning, Legal Advice, Insurance and Marketing. Increasingly these panels and other centres of influence are being used for mutual referrals.

Our practice has strong relationships with two legal practices that specialise in Estate Planning services. At our strategic planning retreat, we decided to change our policy in how we are working with our key centres of influence. Now we will refer clients to our legal partners who are actively referring clients to us.

Another innovative approach is to co-operate with panel firms to provide benefits to their clients. A simple example is to provide 'cross-over' seminars for other firm's clients, or pool resources with joint seminars involving speakers from a number of panel firms. Providing educational content for panel firms' newsletters is another approach to build awareness and increase cross-referrals.

### RELATIONSHIPS WITH OTHER EXPERTS



### INDUSTRY SPECIALISATION

The third objective of Strategic Innovators is to find new ways to attract 'ideal' clients.

I like [specialisation] because it takes you away from the compliance space, into the advisory space with clients. That has a flow on effect for the whole practice.

To **retain and attract 'ideal' clients**, Strategic Innovators are leveraging their industry research and benchmarking resources, either in-house or in collaboration with industry experts to target new markets. For example, Bstar (with the support <sup>10</sup> of BOQ Specialist) has introduced Dental Practice Research and Benchmarking. This is allowing accounting practices that have existing expertise with medical clients to expand their offering and advise dentists.

We sent a 'cold' letter to a database of dentists offering them a copy of the Dental Practice Research Report. We followed up with a phone call - 25% wanted the detailed report. We are now in the process of organising over 50 meetings to deliver the report, and discuss our offering. This is giving me real exposure to new contacts.

Strategic Innovators are also proactively developing unique or exclusive solutions to assist in targeting groups such as industry associations and franchising groups. By becoming a preferred partner or provider, they are attracting new 'ideal' clients. Refer to the next page for more information.

**70%** of Bstar's Alliance Partners were interested in pursuing these relationships to attract new clients. Bstar expects technology collaboration to continue to grow as larger practices aggressively target groups to gain scale in delivering advisory services.

10. Bstar has been supported by BOQ Specialist in producing the 2016/17 Dental Practice Research Report and developing industry benchmarking, by providing access to dental practice clients for data, and sponsorship.

## New Approach - Strategic Technology Partnerships

Large Strategic Innovator practices are using Specialisation in a different way to attract new SME/ME clients. They are collaborating with software providers and industry, business and franchise groups to develop exclusive technology solutions.

### INTEGRATING POINT OF SALE AND GENERAL LEDGER DATA

A key frustration for accountants is the lack of data integration between industry accepted point-of-sale systems and the client's general ledger accounts. Integrating data from point of sale to general ledger systems gives SMEs easy access to real time information.

Cloud accounting technologies have made this type of integration easier. Proactive large practices have collaborated with industry software providers to develop exclusive online solutions which are tailored to the targeted group's systems.

By becoming the group's preferred professional services partner, these practices are generating strong 'ideal' client leads. This partnership also helps build relationship trust, allowing the practice to support group members with other advisory services, such as profit optimisation tools, CFO and BOA Programs.

Another simple approach to marketing was developing material to inform and educate clients. Respondents often felt more comfortable providing information, rather than 'selling' their services. Client seminars are popular for this reason, and provide opportunities to start conversations with clients about their concerns and new services. Bstar's Alliance Partners frequently use electronic communication via email, social media or websites to increase awareness about services.

Speaking at external functions, or publication in industry journals or online bulletins was seen as a way to gain exposure to new clients, as well as increasing the practice profile and reputation. Links to industry, business and franchise groups were useful for these strategies.

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We have a marketing plan for our new revenue streams. We are doing more eMarketing. We're beating the drum to attract new clients!

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However, some respondents were struggling to devote time to marketing, noting that capacity and time constraints are a major concern. Where they lack expertise and marketing skills in-house, this can be a barrier.

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Our clients know we're not marketers - we're accountants! We're working on information to explain our service offering to potential clients, like newsletters and the website.

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For respondents who had developed relationships with marketing firms as part of their network of experts, this was not an issue. Consistent with other areas, when respondents had developed a formal plan, implementation was generally more focused and successful.

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We have a formal marketing strategy with regular interaction with current and potential clients. The plan makes sure we have regular touch points through different channels.

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## Marketing

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The right staff and resources are in place, so now we need to design and implement marketing strategies to gain more 'good' clients.

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Rather than just relying on organic growth, Strategic Innovators are increasing their focus on external marketing to attract new, 'ideal' clients. The approach to marketing varied from simple, to detailed, formal marketing plans.

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It's a simple plan. We are using basic marketing, like mail outs, to attract new clients.

---

## A fresh twist to the '2 Adviser' Model

We first described the '2 Adviser' model in the 2014 and 2015 Accountants Research Reports. A practice targets a new 'ideal' client for higher margin specialist or business advisory services, while leaving the lower margin compliance work with the client's existing accountant.

Bstar is seeing a fresh twist to this model emerging. The target are clients who want business advisory services and are prepared to pay for expert advice. They are attracted by the idea of dealing with a specialist.

Established practices are setting up a new standalone brand, which they are using for their highly profitable specialised services. The new brand is typically supported by a dedicated website and marketing that positions the brand as an expert and specialist in the chosen field.

The new brand has a fresh image, and can generate cut-through in a crowded market.

The target clients may consider themselves as very loyal to their existing accountant, but this is limited to the routine tax and compliance services. These clients never consider approaching their existing accountant for these specialised services.

## Merger & Acquisition is back on the radar

The growth plan is in two stages - the merger/ acquisition is underway. This will immediately give us the extra capacity to focus on stage 2 - business advisory services to SMEs.

Mergers and acquisitions are being considered more often, and are seen as key to more than just growth in fees. Respondents were also using this as a strategy to help address the **#4 Business Concern**; capacity and time constraints. Merger between practices with similar goals and approaches was seen as a faster way to target direct growth, in clients or into a new area. A number of practices have already moved and were implementing mergers or acquisitions.

This acquisition means we are expanding into a new location - with improved and expanded service delivery we are expecting growth from all our existing clients, as well as new clients.

Other motives included acquiring skilled, experienced staff, building scale by increasing the number of partner or principals, and to a lesser degree, sharing costs. Other respondents saw merger as a succession solution.

By doubling the size of our practice, this acquisition will give us increased scale across the team, as well as giving me the ability to groom a successor.

## MORE GROWTH IDEAS AND PLANS

It's about services. Our licensed SMSF division will help provide more services to existing clients and attract new clients. Our business advisory services will continue to provide advice orientated services in combination with compliance services. This will grow our existing advisory fee base and attract quality new clients.



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### Three in four practices have made plans to grow. Here are some examples.

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*The plan is to talk to our existing clients. By targeting their needs we will have opportunities to provide value add services they want.*

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*We are going to build on the obvious opportunities and take advantage of Tier 3 capabilities and opportunities.*

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*We plan to increase our valuation work, provide more coaching and advisory services. This is all on the back of our solid base of compliance work.*

---

*We have planned growth targets: Fee price increase of 3%, additional services to bring in 3-4% and New Clients will add another 3 to 4% growth.*

---

*We have engaged all partners in an external strategic planning program. We have determined the clients we want to target, and where we want this practice to develop. This has given us the focus we need.*

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*We have a plan to grow current practice revenue to \$3- \$3.5M and double the professional staff team. Following on from that, we will open satellite offices led by one of the senior members in the current practice. The new offices will be established either through acquisition or organic growth of current clients based in those areas.*

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*We will get growth from a planned fee acquisition and marketing to referral sources.*

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*Our current focus is on our existing 'ideal' clients. We are packaging our advisory and baseline services to expand our client services offering. The first priority is to increase delivery of services to our existing base.*

---

*We have planned growth of 30% from Location expansion and an acquisition. This will be followed by improved and expanded Service Delivery Packaging, to drive growth from existing clients.*

---

*We need to increase scale, and grow. We are talking to two smaller sole practices about merging with our practice, to gain clients and expertise.*

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# Staff and Strategies





**Having a Great Team** was identified as the top characteristic of a great accounting practice, but respondents indicate that building the great team is proving challenging. Recruiting experienced staff was described as difficult, and respondents frequently mentioned staff issues and recruitment as areas where they need to make major changes, or as major barriers to growth. Details are set out in the break out boxes on Major Changes and Barriers to Growth.

We engaged a recruitment firm and spent two months on finding what we thought was the perfect candidate. The candidate had to give 6 weeks' notice to her existing employer, and two days before she was to start she told us that she was staying put - they had made her a better offer, because they didn't want to lose her. After nearly four months we were back at square one.

Staff quality is also an issue - only **60%** of respondents agreed that their professional staff are delivering acceptable, consistent quality advice to clients.

The cost of recruiting good, experienced professionals is our biggest barrier to growth.

Attracting and retaining staff with the right skills, developing the right team culture, and increasing leverage of both professional and non-professional staff are key to growth, and **56%** of practices had formal staff strategies in place.

The good news is that almost all practices have the essentials covered - **83%** (2016:90%) have up-to-date employment contracts and agreements in place with their staff. **66%** of practices also had recruitment, training and development plans that were aligned to the practice business growth objectives.

Specialisation has brought a whole different type of work into the practice, and new opportunities for my staff.

The majority of respondents are 'hands on' managers within their practices - only half believed the practice could operate without them. However, **83%** have identified the future leaders (and potential successors) within their practice and **44%** have Management Succession plans in place.

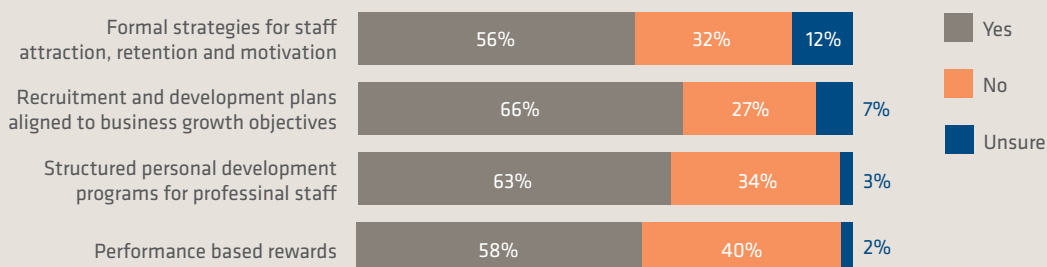
Other indicators for staff motivation and retention are not as strong. Only **63%** of respondents have structured personal development plans for their professional staff, and just over half (**54%**) offer staff performance based rewards.

We are moving away from a focus on technical skills to client relationship management. Over the next 3 years we want all our accounting, tax and compliance staff based in our offshore operations. Our main office will be comprised of staff with strong advisory and business development skills. Our small SME clients will have a senior staff member as their key contact.

Some respondents have upgraded their staff recruitment programs to target staff with proven advisory skills.

Committed and skilled staff are an integral part of Strategic Innovator practices. **Three in ten** practices are taking advantage of outsourcing services to improve capacity. This is creating additional capacity allowing staff to be more actively involved in the delivery of the 'operational' component of advisory services.

**STAFF - RECRUITMENT, RETENTION & DEVELOPMENT**



## Leveraging Staff

Leveraging all the practice resources is one way to increase capacity and address the **#4 Business Concern**, the mix between compliance and advisory services. Respondents are increasingly relying on their professional staff to take the lead in delivering 'operational' advisory services.

Typical solutions being delivered by professional staff in these practices include:

- Needs review for small to medium sized business clients;
- Risks SWOT Workshop and Report;
- CFO Program; and
- Benchmarking.

While considerable progress has been made in leveraging staff's abilities to deliver advisory services, there is still room for improvement.

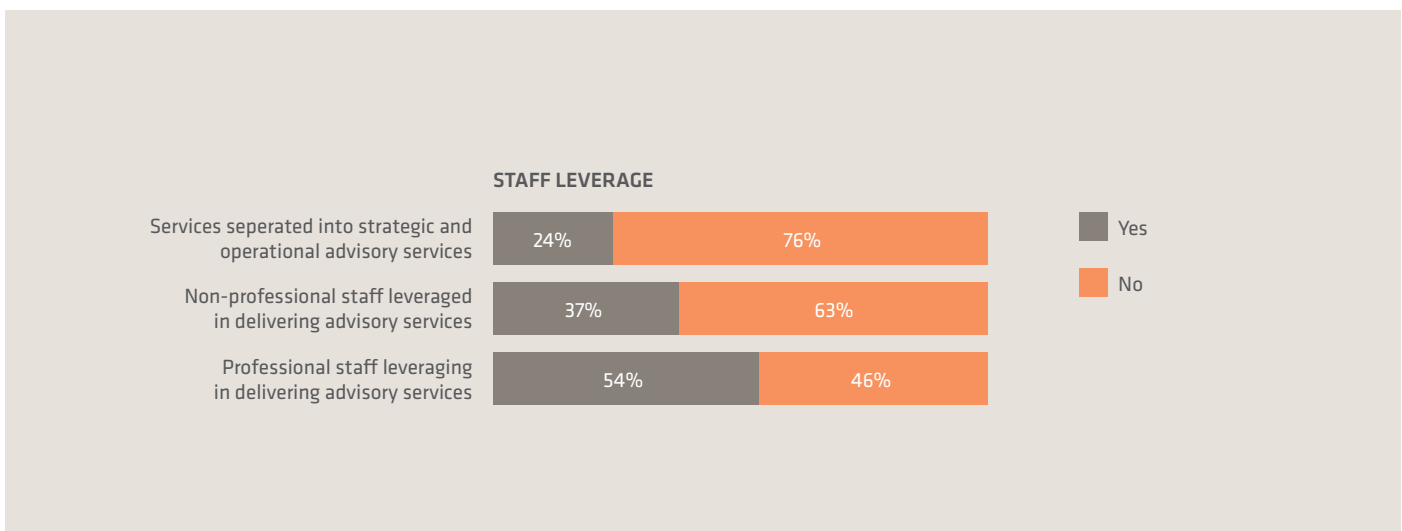
Just over half (**54%**) of the practices surveyed are using their professional staff to deliver advisory services, and **37%** are leveraging non-professional staff.

I never meet with clients without at least one of my staff members being involved. It's a very efficient way to transfer information, and the client gets to know the staff member who will be delivering the service.

Only **one in four** practices had separated business advisory services into strategic and operational advisory services. This is a key foundation to reducing partner workload, and transitioning to **60% to 80%** of all advisory services being delivered by professional staff.

The best training [professional staff] ever get is being in the interviews with the clients, right from the very start of an engagement.

Leveraging also helps motivate and retain key staff, both professional and non-professional, by providing skills development and a career progression within a practice. A new approach to leveraging is the use of Internal Product Specialists.



# The Internal Product Specialist

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Implementation of new advisory solutions within a practice can be challenging. One method being used by Strategic Innovators to smooth implementation is to appoint an internal **'product specialist'**.

## New Products need a champion

The 'product specialist' needs to have the in-depth knowledge to support other staff, and be willing to act as the product 'champion'.

Successful practices have built a team who are trained to deliver the new product or service. However, it can be difficult to gain traction, due to a lack of internal product trust. A product specialist can be used to establish and internally promote the new product amongst staff and can encourage the team to step out of their comfort zone.

By responding to queries and being available to solve problems, product specialists help the team build their confidence and skills. They can also create positive competitive energy within the team by tracking and acknowledging successes.

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One of my staff members was the real driving force behind us offering business valuations. She got very involved in setting it up and getting it working. I was carrying a full partner load at the time. I would have got it working, but without her involvement it would have taken a lot longer. She's a partner now. Her partnership has been built around that specialisation.

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## A way to gain Leverage

Product specialists don't have to be principals. Strategic Innovators are reporting excellent results in gaining leverage when team members are chosen as product specialists. Product Specialists can provide support during client meetings, and build a useful profile with clients.

Becoming a product specialist is an opportunity for future leaders to:

1. develop their technical skills;
2. increase their management responsibilities; and
3. build a fee/revenue base.

By spreading responsibility, it reduces the pressure on principals and ensures that each new product has the support and focus it needs to grow.



# Succession Planning



## Real Life Succession Plans

A significant number of respondents do have succession plans in place. 48% have Ownership Succession Plans and 44% have Management Succession Plans. Here are some examples:



*We are dealing with succession in a variety of ways. We have a 2 year rotational basis for the Managing Director of the practice. In recent years we have been through Ownership Succession as partners have exited. I expect the next stage of ownership succession to be in 5-10 years.*

*I have lots of plans. We want to double the size of the accounting practice. This will allow increased scale within the team and with it, the ability to groom a successor. I want to pursue this in parallel to seeking M&A opportunities. I am hoping to find a successor through that process.*

*We are doing some Management Succession. We have plans underway for internal role expansion for our existing key staff.*

*We have identified key staff internally, and we are offering them Partnership Entry.*

*We have begun to transition to the next generation of manager. We have located great people, who are working in the practice. The key next step is for the partners to successfully mentor them through the transition to the next level.*

*Our succession is currently underway. We have one exiting partner and one new partner. We are also planning for one senior manager to join the business in the next 2 years.*

*This is relevant now. Our senior partner is approaching retirement, so one of our current Directors is looking to take over his management role. We are working through whether that is a part-time or full-time role.*

*We have a planned, staged sell down process from our older Director, who is exiting in 3-5 years, to the three younger Directors. Our plans include attracting another suitable Director in due course – we are not rushing the process; we want to get it right.*

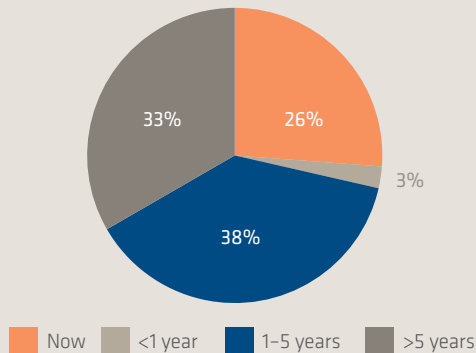
*Our succession plan is centred on internal promotion. We're fortunate, we have good candidates in hand.*

*We have a long term approach as a business, of bringing in new owners who are trained within the practice. That involves recruiting with a long view, and investing in developing and mentoring our staff. We also have a compulsory equity sale requirement at age 60 in our practice agreements.*

*Our practice has put an employee share plan in place. The main question is whether the right people are on the bus. Time will tell.*



WHEN IS OWNERSHIP SUCCESSION IMPORTANT?



Succession Planning was not a priority for respondents. More than **70%** of respondents indicated that both Management Succession (**74%**) and Ownership Succession (**71%**) were not important now, or in the next 12 months.

There's no need for a succession plan. Three of the four Practice owners are under 40.

Put simply, this can be explained by the age of respondents. More than 90% are under 55 years of age. While less than half of respondents have either Ownership or Management Succession Plans in place, this was generally due to the fact that they are intending to remain in practice for many years to come.

Less than half (**44%**) of practices had a Management Succession Plan. While respondents had taken a number of approaches to motivate and develop staff (see - Real Life Succession Plans for more details), the majority intend to remain personally involved in the management of the practice for the short to medium term.

Succession is not a major concern at this stage as I see myself in the industry for many more years.

In relation to Ownership Succession, we have a younger partner in the process of buying out an older partner. We're not looking at management transition at the moment. It's not urgent. The other partners are not looking at retirement for 10 years or so and it is these partners who play the strongest role in management.

# What makes a Great Accounting Practice?



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Astute business advice that adds value.

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Bstar asked respondents what are the characteristics of great accounting practice - the type of practice that they aspired to be. There were a number of themes that emerged from their remarks.



## Great Team

It was interesting how respondents, when describing an ideal practice, in fact were describing the individuals who make up the practice.

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I see the future as a team of advisors that work together to cover all service areas.

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The quality of advice was stressed by a number of respondents, but of greater importance was the need and ability to embrace change, be flexible, responsive and nimble. As technology increasingly moves to develop 'artificial intelligence' to supply technical information, softer skills are becoming critical.

Respondents want to work with individuals who are **'passionate'** **'engaging'** **'personable'** **'trustworthy'**. Their ideal practice was made up of 'professional', 'efficient' staff with 'business acumen' who could 'look beyond figures'.

They needed staff who are **'good communicators'** who are **'focused on client needs'** and above all, **'responsive'** to clients. These are the staff who can ensure that the practice delivers the key services, and can successfully manage **'high interaction with clients'**.

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You have to have a broad range of in-house expertise.

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Respondents remarked that finding professional staff with excellent client management skills was often difficult, as these skills are in very high demand.

Respondents were also conscious that this required them to aim to provide flexible working conditions, in order to support and retain their staff. Respondents also described providing a 'development' culture, to retain and develop staff.

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It's about less junior staff.

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And respondents were addressing the difficulties of recruiting staff by developing the capabilities of existing staff. Refer to the Staff and Leverage section for more information about staff strategies.

## Specialisation and Advisory Services

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You need to push into the advisory space, and have conversations with your clients. It can be quite a difficult conversation, but clients need this help. If you have the conversation, eventually the work will flow.

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There is a strong theme that the accounting practice of the future will be focused on specialisation and advisory services. In a number of cases, respondents summed up the future in one word; 'Advisory'.

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The focus must be on forward looking advisory services.

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There were some subtle but important differences in approach to this issue. Respondents identified 3 different types of Specialisation and Advisory Services:

- 1. Advisory Services** - business advisory services, tailored to the individual needs of clients. These have the strategic advantage of not requiring additional licences or qualifications.
  - 2. Specific Services** - some practices believe the future is about offering a broader range of services and many are choosing to build specialist expertise in the following areas:
    - a. in specific industries;
    - b. Financial Planning, Wealth Management, Finance and SMSFs;
    - c. targeting specific types of clients, such as high net worth clients, with Estate Planning or Family Office Services.
  - 3. Developing a Multi-Disciplinary Practice** - while some practices build co-operative networks with experts in other fields, to develop a true multi-disciplinary practice, principals must develop ways to integrate their practice with other professionals such as lawyers, advisers and planners, to create a single client service offering - Refer to the Family Office Services section.
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Advice has to be focused on client needs.

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## Delivery

High quality delivery processes and systems was a third major theme identified in a great accounting practices. The efficient use of technology to deliver services was a strong theme. Understanding IT, using it to increase efficiency, and the continuing need to adapt to new technology was emphasised by a number of respondents. **63%** of respondents are already using technology to improve efficiency, and we expect this to increase.

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The future of compliance will be highly automated.

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Use of Cloud based applications and technology to deliver services is now widely accepted as part of day to day business, and was not singled out as a major factor. More comments were made about technology as particularly important in the efficient and effective delivery of compliance services.

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Use of Cloud based solutions for regular and efficient preparation of financial accounts - not just year end.

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# What Advisory Services are SMEs buying?





Bstar Alliance Partners use the viba<sup>11</sup> Needs Review process to better understand their clients' needs, and provide advisory solutions to satisfy those needs.

We use the needs assessment as the primary tool to attract new 'ideal' clients. When they meet a new client, our competitors discuss what they do. We take a different approach. Before we discuss what we do, we offer a complimentary needs assessment meeting. We position the meeting by stating that, until we understand your concerns and aspirations, we cannot provide advice and support.

This process is incredibly powerful. We met with a new business client and when we got to the Asset Protection and Estate Planning section of the Needs Assessment the husband & wife owners advised us they were planning to get a divorce. We were the first people they had told.

11. viba is Bstar's Value Improvement Benchmarking Advice (viba) Alliance Partner Program.

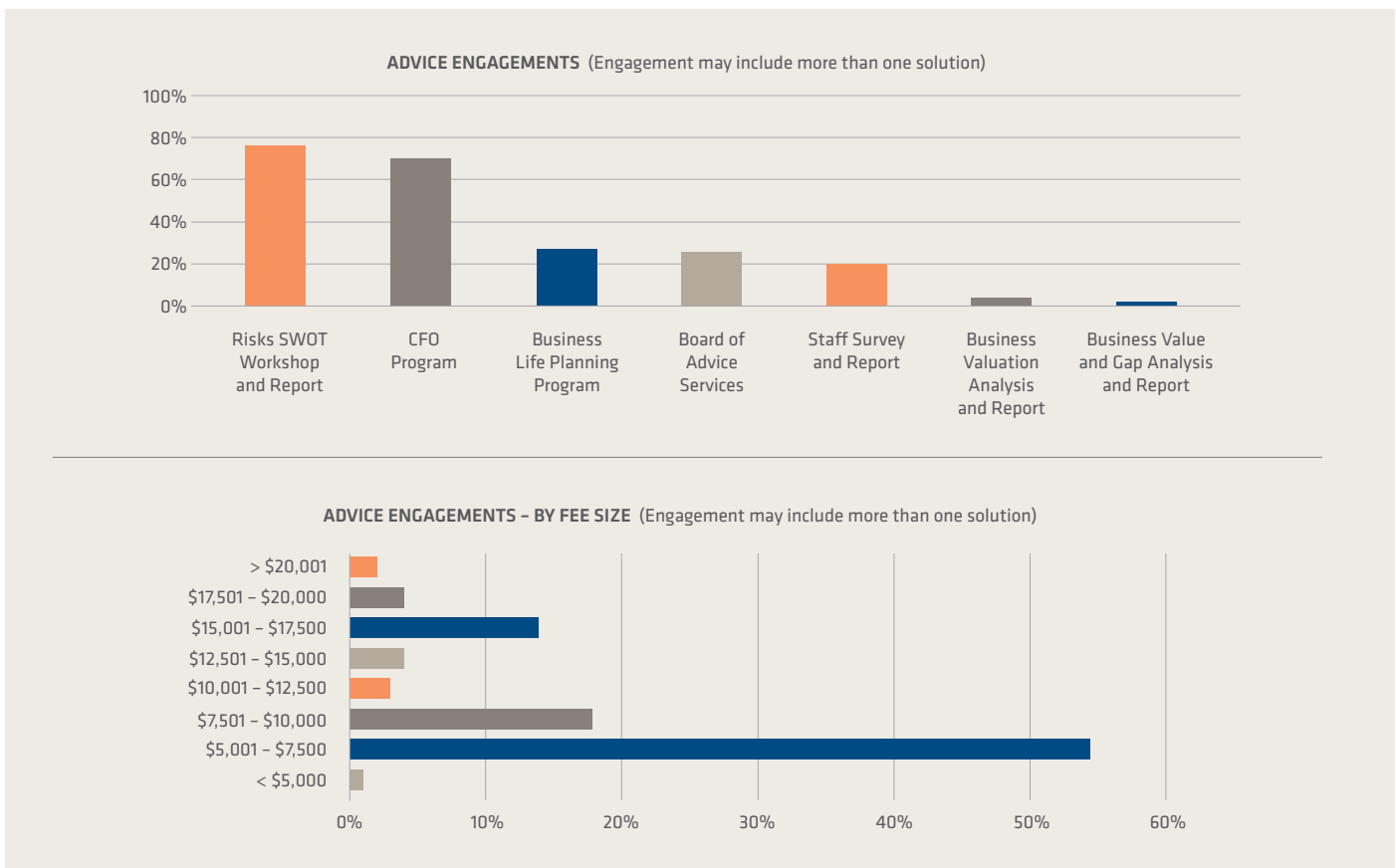
Bstar supports Alliance Partners by preparing presentations used in 'needs-to-solution' meetings with clients, and tracking engagements obtained. Furthermore, Bstar provides ongoing advice and support for Alliance Partners in delivering solutions to their clients' most urgent needs.

Bstar has collated data on 101 engagements proposals to SMEs made over a nine month period. The graphs below show the advisory solutions proposed and engagement fee size.

**MOST NEEDED SME SOLUTIONS - RISK MINIMISATION AND SOUNDING BOARD SERVICES**

There is so much disruption in so many industries. We need to look ahead instead of to the past and help our clients minimise their risks and plan for the future.

It is not surprising that the most commonly recommended advisory service for SMEs is a solution designed to help them minimise their business risks and address their top two needs - business and succession planning. **The Risks SWOT Workshop and Report** solution (refer to the section 'How Bstar is supporting Strategic Innovators') is designed to allow SME owners to assess their business risks, understand strategic threats and opportunities, and start the planning process.



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You can't just do a Report and hand it to a client. The real key is identifying the flow-on needs. Keep talking to the client about the key issues. If the issue is there, it's not going away, so the more conversations about it the better.

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It is best to start slow, and make it easy for the client. We begin with a Workshop engagement, then that turns into a CFO engagement the next year. The client sees the improvements in their business pay for the Program!

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The **CFO Program** was the second most recommended advisory service to SMEs.

The Program enables SMEs to access an external CFO on a part-time basis, and the level of service can be tailored to suit the size of the business. Expert analysis of the SME's accounts, with recommendations for improvement on a regular basis can greatly assist with the successful implementation of budgets and business plans. Whether the goal is to manage financial risks, track cash flow, improve financial record keeping or report on actuals vs. budget, the program can be adapted to meet the specific needs of the client.

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One GP client was originally referred to us by another accountant for a business valuation.

Following on from the valuation, we have conducted a Strategic Planning Process for the practice, a full HR Review, appointed a new General Manager and now I chair their BOA.

We still don't do any of their tax or compliance work.

The tax work is worth \$5k pa in fees.  
We are earning \$35k pa in advisory fees.

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For SME/ME clients, **Business Valuation** and **Board of Advice Program** services are the most popular solutions. These flexible solutions evolve as the business develops and grows.

Business valuations serve different purposes through the business lifecycle, as businesses expand and bring in new owners, and later when founders are planning to sell.

Boards of Advice can easily adapt to larger management teams and change focus from everyday management to strategic planning, and protecting the business.

## ADVISORY SERVICES CLIENT PACKAGES FOR STRATEGIC INNOVATORS

Strategic Innovators understand they can't offer solutions to all their clients' needs. Instead they focus on their on the most in demand solutions wanted by their clients. They design new advisory services packages that are easy to implement and utilise accountants' core financial and analytical skills.

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Clients want to be able to predict their working capital areas such as bank balance, accounts payable, account receivable and inventory.

The ability to show a client where they are heading, by combining actual with budgeted information, is where our industry needs to go.

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Business advisory improvement packages work well when attracting new 'ideal' clients and are typically priced on a fixed monthly fee and are offered to existing and new clients. Fee funding can be used to spread the cost of the client's upfront investment and help smooth out the practice's cash flow.

These are some examples:

- **Needs Review** – this is essential to building relationships and securing engagement. Bstar recommends it is included in all packages, and completed annually on the anniversary of the initial engagement;
  - **Package 1 - Profit and Cash Flow Improvement Service:**
    - Risks SWOT Workshop and Report and CFO Program solutions;
    - Advisory Services Fee - minimum \$600 per month.
  - **Package 2 - Value Improvement Service:**
    - Business Valuation, Benchmarking and Board of Advice solutions;
    - Advisory Services Fee - minimum \$1,500 per month (based on regular BOA meetings).
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It's often easy to identify what's wrong.  
The real value is advising what to do about it.

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## How Bstar is supporting Strategic Innovators

Accountants need trusted advisers who can respond quickly to their changing needs.

Bstar's Alliance Partners have told Bstar that they want to **spend more time on delivering advice to SME clients and less time on data entry and report generation**. They want to increase their capacity, and are looking to technology to increase efficiency.

### AUTOMATED BUSINESS ADVISORY SOLUTIONS

To support its Alliance Partners to grow profitable business advisory services, Bstar is automating each step of the Value Improvement Benchmarking Advice ('viba') advisory process.

The automated Tools include:

- Business Valuation (completed);
- Risks SWOT Workshop and Report (now released); and
- Asset Protection/Estate Planning Engagement (under development).

### MORE INDUSTRY SPECIALISATION AND BENCHMARKING SOLUTIONS

To support its Alliance Partners to attract new 'ideal' clients, Bstar with the support of its business partners is developing more industry specialisation and benchmarking solutions:

#### Health:

- Dentists, GPs, Pharmacists, Medical Specialists (Ophthalmologists, Radiologists, Dermatologists and Cardiologists);
- Veterinary Practices;

#### Professional Services:

- Financial Planning, Mortgage and General Insurance Brokers;

#### Farming:

- Beef, Sheep and Crop;

#### SME and Other:

- Real Estate Agents, Road Transport and Logistics.

## Bstar's CEO discusses the next step in the automation of the viba advisory process.

The most commonly recommended advisory service for SMEs is a Risks SWOT Workshop and Report.

Bstar has responded by developing a **Risks SWOT Workshop and Reporting Tool** which automates this process, and creates opportunities for leverage.

Grant Bloxham, Bstar CEO discusses the growing need for this Tool.

*"We developed the Tool in response to the increasing number of engagements our Alliance Partners are securing. The Tool streamlines delivery of the Workshop and Report, increasing practice capacity.*

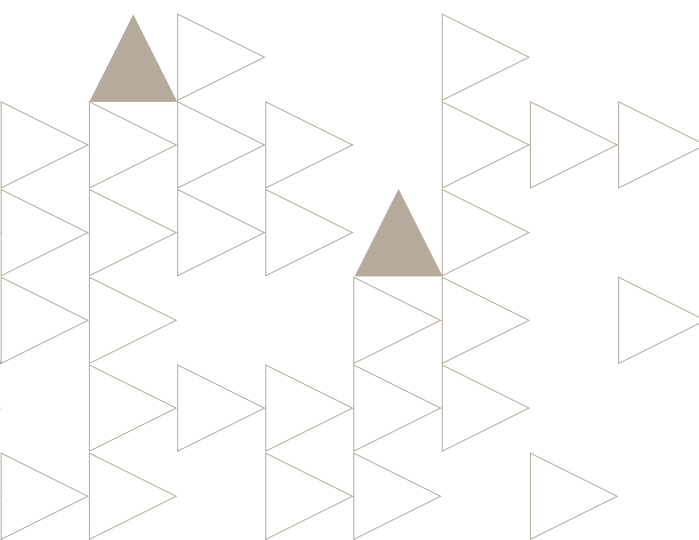
*Alliance Partners are using the Risks SWOT Workshop and Report to create leverage in their practice, by having professional staff deliver the Workshops. Using the Tool speeds up the process, reducing preparation time, and assisting with preparation of the Report. This makes advisers more time efficient, shortens the delivery time, and enables advisers to have ongoing interaction with clients, resulting in stronger adviser/client relationships.*

*While the Risks and SWOT workshop can be delivered one-on-one to a client, I know some practices are conducting workshops with groups of clients. This reduces the cost to each SME and improves fee margins for the adviser.*

*Advisers can pass this efficiency gain on to clients in reduced fees. That way, more small business clients can benefit from this innovative advisory solution."*

Outlined below are the steps involved in conducting the Risks and SWOT workshop:

- **Before the Workshop**, the client completes an online, practice branded, interactive Risks and Value Drivers Assessment (RAVDA).
- **Before the Workshop**, the Tool uses the client's responses to generate interactive SWOT tables for the adviser, reducing their preparation time.
- **During the Workshop**, the adviser and their client discuss responses to key risks and value drivers and rate the level of concern. The SWOT tables are updated during the workshop and the Tool suggests business improvement strategies to address the identified 'high' concern risks. The adviser and client then agree the top 3 business improvement strategies and an action plan.
- **After the Workshop**, the Tool generates a draft Report, for the adviser to review and finalise.







## OUR SOURCES AND APPROACH

This Research Report has been prepared by Bstar Pty Ltd ABN 60 109 809 305 to provide an opinion on accounting practices in Australia and the views of accountants and practice principals. It is for general information only. The content in 2017/18 Accountants Research Report is taken from a range of sources. Bstar deals with accountants every week, and conducts discussions with accountants from at least 400 distinct practices throughout Australia every year; the majority of these practices are not Bstar Alliance Partners and have no financial relationship with Bstar. Bstar uses this contact to discover the views and concerns of accountants and to collect data on accounting practices all year round. Respondents were not paid for their involvement.

Bstar routinely conducts strategic discussions with practice principals about their needs and concerns, and has used information from those discussions in preparing this Report, in particular the 'Strategic Threats', 'Top Business Concerns' and 'How are Practices Growing' sections. Bstar's CEO Grant Bloxham has more than 1,800 LinkedIn connections (the majority accountants), who also provide Bstar with input and comment on issues. Quotes used in this Report are sourced from interviews, notes, email, surveys and comments from accountants and may have been paraphrased or amended for clarity or to de-identify the individuals involved. Statistics are based on standard questions and surveys conducted with principals of accounting practices, including Bstar Alliance Partners, as outlined in the section 'Our Respondents' and the group is not intended to represent all accountants in public practice.

Information used in the section 'What Advisory Solutions are SMEs Buying?' is taken from 101 Needs Assessment and Engagements conducted by Bstar Alliance Partners over a nine month period from 2016 to 2017. This data was collated primarily for SME Research, and is separate from, and involves a different group, from the accountant respondents surveyed or interviewed for this Report.

Bstar has a financial relationship with Bstar Alliance Partners. 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, and obtains services from Bstar for a fee. Information contained in the section 'How Bstar is supporting Strategic Innovators' and elsewhere relating to support and preferences of Bstar Alliance Partners is taken from a survey relating to the future direction of advisory services and technology specifically of Bstar Alliance Partners conducted at the end of 2016.

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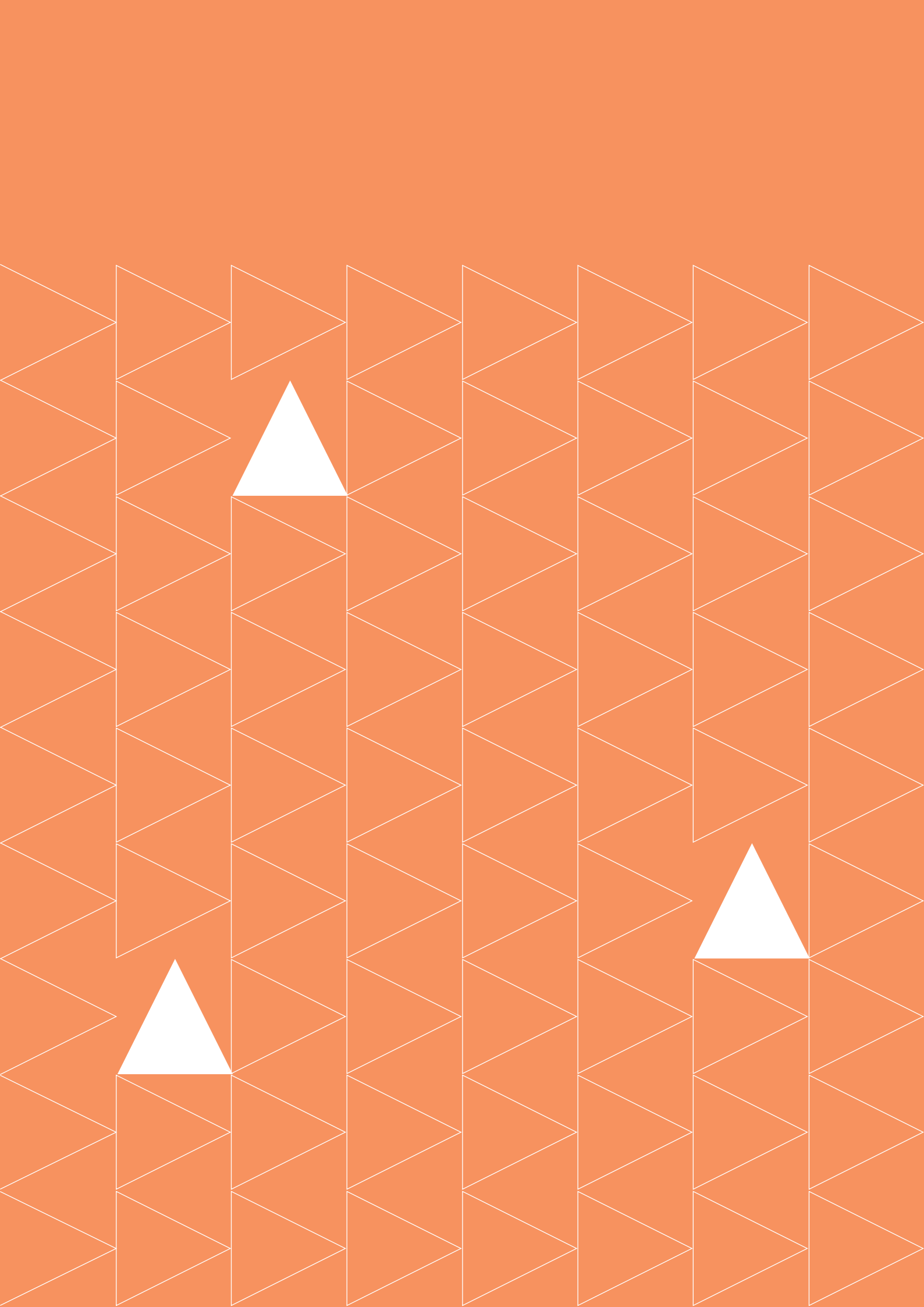
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