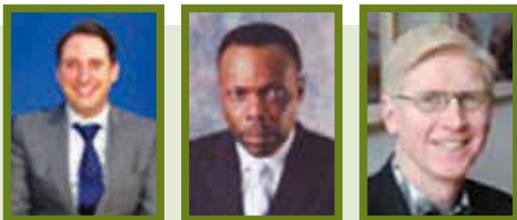


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The Practice of Tomorrow—How to Remain Relevant by Transforming Challenges into Opportunities



*As highlighted in **Firms of the Future—Building Advisory Services** there is a general consensus that small- and medium-sized practices (SMPs) need to re-evaluate the services they provide. This may involve changing their business model to include or expand business advisory and consulting services. Research indicates that, irrespective of jurisdiction, accountants, and especially SMPs, continue to be the preferred advisors to small- and medium sized entities (SMEs). SMPs have an in-depth knowledge and understanding of their SME clients and are therefore well-positioned to provide a range of value added services. Read on to know more...*



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International Federation of Accountants' (IFAC's) literature review on *The Role of SMPs in Providing Business Support to SMEs—New Evidence* explored both the supply and demand for business support from SMEs and highlights the associated potential for future revenue growth from business advisory services.

Of the over 6,000 SMPs who responded to the 2018 IFAC Global SMP Survey 86 per cent provided some form of business and advisory consulting services. The range of services is wide and diverse, including corporate advisory, management accounting,

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business development and restructuring services. Advisory services are predicated to have the most substantial growth in the next 12 months with the majority of small practices (51%) anticipating moderate or substantial fee revenue increases in this service line, compared to tax compliance & planning (40%) audit and assurance (36%) and accounting/ compilation (36%).

Members of the IFAC SMP Committee recently discussed this topic with representatives from around the world providing their own experiences, tips and good practices for how firms can transform. To respond to client's demands, practices should focus on three main areas – Professionalism, Firm Structure and Business Model and Technology Tools. There are tremendous opportunities for practices to be innovative and transform, especially due to the environmental and technological shifts.

Professionalism

A key framework is the *International Code of Ethics for Professional Accountants*, which sets out fundamental principles of ethics for professional accountants and distinguishes them from other consultants or advisers. Professionalism underpins all of professional accountants' activities. SMPs can promote their values including integrity, diligence, trust and putting clients first and be clear that they are providing professional advice and services.

Firm Structure and Business Model

SMPs need to re-consider their firm structure and business model. There are a range of different options for transitioning and providing different services, which includes recruiting specialised talent to focus on a niche area, merging or acquiring a new firm and training existing staff to equip them with new skills.

It is clear that a new service cannot be provided without sufficient expertise and knowledge. A firm may decide to recruit a new partner who specialises and has strong experience in one particular industry or sector. This would enable them to understand client's issues in that area and importantly bring added-value from their exposure to a range of similar businesses over the years. Combining one practice with another, either through a formal merger or informally through a referral process and 'business partnering' provides an immediately available resource for existing clients and a new revenue stream.

Adding additional experienced expertise to a practice can also help with talent attraction and retention, which continues to be top challenge facing many SMPs. In fact, 54% of small practices have difficulty attracting next generation talent. However, cross-training staff in new service lines provides valuable learning experiences and can be combined with on-the-job practical involvement. Even starting small, with basic tasks, is beneficial expertise which will grow quickly over a just a few years.

In considering what types of services to provide to clients, it is important for the firm's leadership to be open to new opportunities whether internally or externally driven. All staff members should be actively encouraged to provide suggestions for potential new service lines, as they are often closest to the clients. Communication training and encouraging a more client-centric mind-set can often help staff to listen and fully understand the client needs, so the appropriate service can be scoped and delivered. This shift helps staff focus on the practice's value proposition and level of fees charged (please also see *Three Ways to Effectively Manage Fee Pressure*).

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External opportunities may take the form of new technological developments, emerging activities or sectors, or changes in legislation to provide specialized advice. To appeal to younger generations who strongly value working in an ethical, dynamic and sustainable organisations, firms could focus on service lines which have some element of public service or environmental and social impact. In this rapidly changing environment, small firms can usually make faster changes in strategic direction to take advantage of new opportunities and significantly benefit from being more agile and adaptable.

Technology Tools

Fully utilising a range of technology is critical to future success. 28% of SMPs plan to allocate more than %10 of total practice revenue over the next 12

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months to technology investment. As automation and digitization continues to impact business, clients will require advice on how to effectively implement technological solutions. For example, to reduce administration costs around generating and processing invoices, chasing late payments, payroll etc. SMPs can provide valuable advice on what tools can make any business process more effective and efficient.

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SMPs should also develop and implement a technology strategy for their practice. This may include utilizing practice management software packages to assist, for example, in timesheet, billing and monitoring recovery rates or a customer relationship management package to help the provision of services or implementing a client portal. In a recent publication *Developing a Technology Strategy* we cover five steps to embed technology in a firm.

Going forward, the higher value work will be future-focused based on analysis, interpretation and insights, compared to lower value historical tasks such as inputting data, verification and conventional reporting. Technology tools provide an opportunity to provide information to clients in real-time. For instance, visual dashboard reports can be easily and quickly generated to enable a meaningful discussion with clients on a monthly basis with current figures. Practitioners in some jurisdictions have specialized in becoming virtual CFOs - utilizing the cloud enables them to service a number of businesses and provide appropriate, relevant advice, around the clock.

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Approaches to Advisory Services

There are a number of different approaches an SMP can adopt to provide advisory services. The firm can focus on improving a client's entire business by considering the whole strategy and future direction. The firm can interpret and provide insights on both financial and non-financial information and provide informed advice to help improve the businesses decision-making and general processes. This is where listening and understanding the client's needs is critical and is complimentary to the deep knowledge and expertise the firm has on the nature, culture and operations of the business.

Conversely, a firm might focus on basic financial number interpretation, involving a review of the annual financial statements and monthly management accounts. This may include an explanation of what the figures mean to the business and could progress towards more detailed analysis and forecasts with the development of year-on-year trend analysis, budget versus actual models, cash flow forecasts etc. to enable advice around managing working capital and profits.

Transforming Challenges into Opportunities

The IFAC Global SMP Survey identified key challenges many small and medium-sized practices (SMPs) face. Provided herein below is the information following breaking down the data from the survey that provides ideas, and tips to help SMPs address these challenges as well as best practice examples from IFAC SMP Committee members, together with the range of other tools and resources available.

Differentiating from Competition: Differentiating from competition came in fourth as one of the top global challenges identified by survey respondents, reflecting that competition is increasing. It is also in the top two challenges in Central and South America/ Caribbean and the Middle East regions.

Thousands of accountants provide similar services and there are many other service providers promoting themselves and competing for similar market segments. Existing and potential clients will need to decide which firm they engage. In making this decision, they are more likely to be influenced by differences between practices than by similarities.

Having a point of differentiation helps your practice stand out from other accounting firms, at least in



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the minds of clients. But this is not necessarily an easy task. After all, firms deliver similar services and operate under a similar code of professional ethics. But the fact that professional accountants in public practice are required to adhere to the highest ethical standards is an important differentiator from other consultants. IFAC member organizations are required to adopt and implement ethical standards no less stringent than those in the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*.

Firms often price their services in a similar way, and may even brand themselves in a comparable way. Many firms also pride themselves on their professionalism, confidentiality, communication style, and personality.

Differentiation can be achieved in a number of ways, such as through:

- how your firm communicates and engages with clients;
- the range of services provided;
- the depth of specialisation in a particular area;
- how services are provided;
- accessibility;
- price and pricing structure;
- office appearance and feel; and
- the network that your firm can connect clients into.

It can be difficult to focus on work quality as it is hard for clients to recognize a difference in quality of work or advice, unless they have had a bad experience in the past. Generally, clients expect their accountants to deliver a quality product, and price is not an area where your practice may want to try to differentiate. Differentiation is likely best achieved through the services offered and the way it is done. There is ample scope to identify what is delivered that will be meaningful to the target market. Once done, your firm can build a part of its marketing program and messaging around the point of differentiation.

Business Advisory Services: The Global SMP Survey found that the fastest growing service area is advisory and consulting services with 35% of SMPs reporting fee increases in this area in 2016 and 45% predicting increases in 2017.

83% of SMPs provide some form of consulting services with the three most commonly provided being corporate advisory, management accounting, and human resources policies and procedures and employment regulations.

The findings support the recent IFAC research report, *The Role of SMPs in Providing Business Support to SMEs—New Evidence*, which found that whilst the majority of SMPs' revenue is generated by traditional services, including compliance, audit, and taxation, diversification in business advisory services is on the rise.

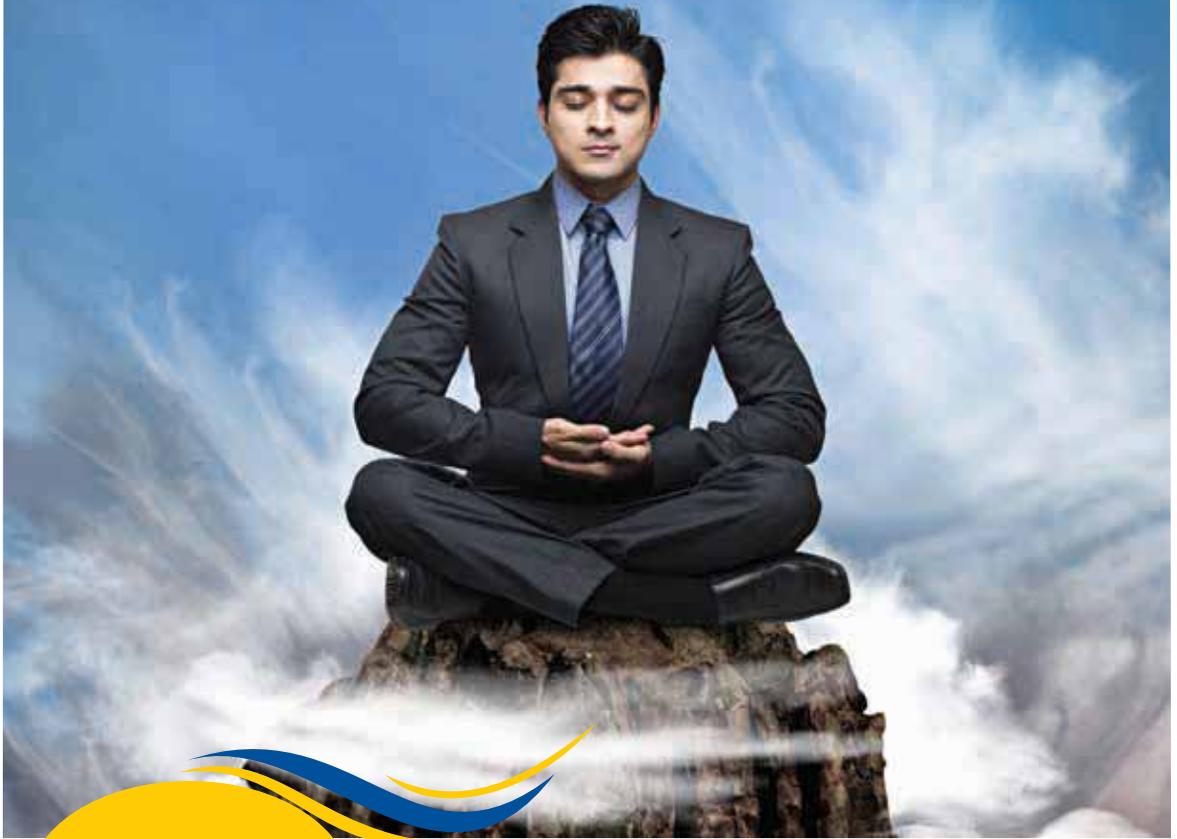
Differences exist in SMPs offering of business advisory services by geographic region, size, and strategy. In addition, the factors driving small- and medium-sized entities' (SMEs) demand for business advice from SMPs, among others, include company (i.e., size, debt, age, growth, and available resources) and environment-related factors (i.e., economic conditions, including regulations, and competition). SMEs most likely to purchase business advice are larger, younger, carry higher levels of debt or intend to obtain new funding, and exhibit higher growth rates or intentions to grow. The research suggests that SMPs currently, and more so going forward, may play the roles of advisor, confidant, analyst, facilitator, and educator to their clients.

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Trusted Business Adviser: Trust is the key to success in building up business advisory services. Your clients' need to believe that their accountant's advice—your advice—will have positive consequences. In this context, trust has three dimensions:

- *capability*: your client's belief that their accountant has the required expertise, skills, and competences to perform the job effectively;
- *honesty or integrity*: your client's belief that their accountant will keep his or her

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promises and adhere to a set of acceptable principles; and

- *benevolence*: your client's belief that their accountant cares about their welfare.

Business advice is significantly enhanced when provided by an accountant with knowledge and insights into a client's finances and business environment, as a result of providing traditional accounting services previously. New advisory and consulting clients are often driven primarily by existing customer-client relationships.

There are numerous opportunities available to firms wishing to step outside their traditional service areas and expand service offering into business advisory services. This demand is being driven not only by firms wishing to increase profitability but also by clients who need to compete in a globalized business environment. While the concept of providing consulting services presents a challenge to practitioners, many have come to realize that clients value advice on growing their business much more than traditional accounting services. IFAC's *Good Practice Checklist for Small Business* can be used by practitioners to help determine what type of assistance a client may need.

Technology also enables SMPs to work in a global economy where borders are no longer relevant. Outsourced or off-shored compliance services can often provide much lower prices, meaning there is increased pressure on some firms to expand their service offering.

Sustainability reporting and advising businesses on how to be more sustainable is a relatively new but fast growing service area for accountants. In 2016, 14% of SMPs provided some form of enhanced corporate reporting service (integrated reporting, sustainability reporting, corporate social responsibility reporting).

Many organizations are keen to know how to do more with less as this may improve the bottom line. Accountants can advise on the benefits of reducing energy costs and pollution, from simple behavioural changes aimed at eliminating waste to investment in new equipment and alternate sources of energy or developing an environmental management system (EMS). EMS allows businesses

to identify and control the environmental impact of their activities, products, and services; set and achieve environmental targets; and demonstrate that targets have been achieved. An IFAC publication *Creating Value for SMEs through Integrated Thinking: the Benefits of Integrated Reporting* can help accountants and their clients in this space.

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Additional Tips

Some additional tips to help SMPs build or lay the groundwork for a business advisory practice are as follows:

1. **Modify the mission statement, vision, and plan.** When expanding or changing the direction of your practice, set a clear vision for the future and a roadmap for how to get there.
2. **Educate and train staff.** Providing high-quality business advisory services demands a different skills base than providing traditional accountancy-based services. Developing business advisory capacity by expanding existing staff's technical and soft skills is critical. Some accountants can make the transition to business adviser through experience and self-development, while others may need training or coaching.
3. **Focus on a specific industry sector or specialization.** Few practices and practitioners will be able to gain and maintain the knowledge and skills necessary to be competent in all areas of business advisory. Therefore, your practice should consider carving out a niche and participating in a referral network that can provide the other services. A common model is to focus on a specific industry sector, such as hospitality,



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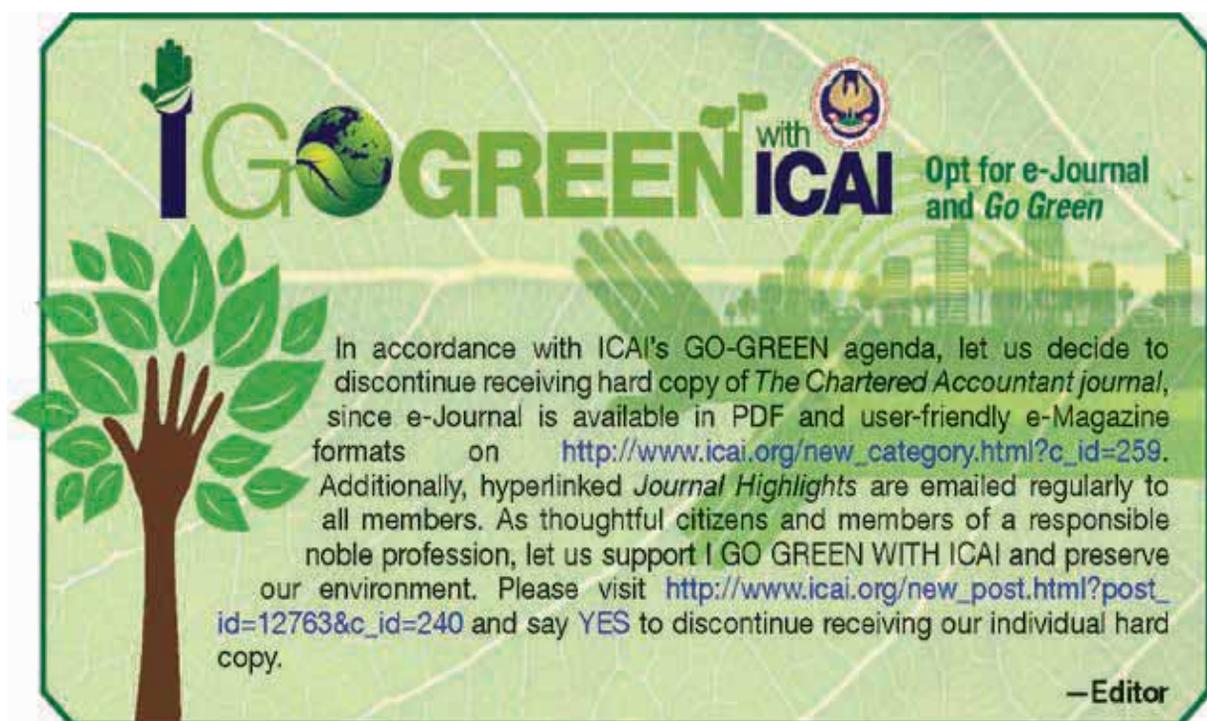
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or develop a specialisation, such as sustainable business practices, in order to differentiate your practice from the competition.

4. **Develop relationships with other firms.** Referral networks offer many potential advantages, such as helping your practice increase its client base. Participating in a network is an effective way to satisfy the increasing breadth of demands from SME clients and can help demonstrate to new clients that you have the capability of a larger practice. Referral networks can extend beyond accountancy to legal, human resources/capital, and IT, for example.
5. **Promote your practice to existing and new clients.** Promoting and marketing your practice, and the value of your services, is crucial to success. There are a number of reasons why SMEs choose SMPs to provide business advisory services, including their reputation for trust, competency, and responsiveness. Leverage these qualities by promoting
6. **Change your business model.** Business advisory services may require a different business model from that of traditional accountancy-based services. For example, business advisory services may be better suited to a business model based on selling intellectual capital rather than time. This lends itself to value pricing.
7. **Embrace technology.** Advances in technology present a significant opportunity for SMPs to operate more efficiently, reduce costs, and offer additional value-added services. Cloud computing, for example, allows SMPs to more actively engage with their SME clients in a “real time” environment and offer services, such as a virtual CFO, cost effectively.

Courtesy Global Knowledge Gateway of IFAC ■



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