

# ISCA Chartered Accountant

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**LEGAL  
FRAMEWORK  
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**READYING  
SMIPS  
FOR THE FUTURE**

**What Does Practice Innovation  
Mean To You?**

# FOCUS **READYING SMPS FOR THE FUTURE**

## **READYING SMPS FOR THE FUTURE**



**BY**

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## WHAT DOES PRACTICE INNOVATION MEAN TO YOU?

In Singapore, the auditing profession providing assurance services is increasingly challenged by fee pressures and technology disruption to find new ways to serve its clients. The answer to the question on where an audit practice is heading depends on whether the practitioner is proactive or reactive to change.

The minority proactive group knows that doing little or nothing is not the right approach, while a large category of practitioners adopts the “wait and see” approach.

In Singapore, according to the 2015 Productivity Scorecard and Benchmarking Survey by ISCA, the average revenue per employee in small and medium-sized practices (SMPs) is S\$82,400. This is almost three times lower than the average of their global peers of S\$231,800. This should sound the alarm for Singapore practices to better manage their top and bottom lines. Should practitioners continue to “wait and see”, and eventually find themselves squeezed out of the market because they are no longer sustainable?

In this article, we will be sharing strategies to prepare SMPs for the future. The same principles apply whether you are a start-up, if your practice has plateaued, or you are looking to grow your practice to the next level. If you are willing to make some changes, a “blue ocean” awaits you ahead.

With around 700 accounting firms in Singapore, what makes your firm different? ... the first step is for an SMP to create a brand and unique corporate image.

## MINDSET CHANGE

Human beings are used to doing the same things, the same way, year after year, while change is a function of the four “D”s comprising:

- + **Dissatisfaction** with your current situation;
- + **Desire** for something better;
- + **Determination** to succeed when inevitable setbacks arise, and
- + **Discipline** to do the important things, and stay on track.

Globally, the sole practitioner with fewer than 10 employees describes the typical profile of an accounting firm, and this same profile pertains to Singapore. The impediment to growth is often attributable to a lack of management and entrepreneurial skills. A firm of more than 10 employees can be challenging to manage and hence, there may be a subconscious decision for the firm to remain small.

Every practice is different, and whether the firm retains the *status quo* or grows depends on what matters most to the practitioner, and how exactly he can go about making the necessary adjustments.

The adoption of cloud technology by businesses has been a game-changer. As a case in point, the use of cloud software provides clients with bank feeds and real-time information,

thus offering greater visibility of the company's financial position. This enables better decision-making, as well as opens up the advisory service opportunity to practitioners.

Most professional accounting bodies and industry experts globally are suggesting that accountants move into the role of *trusted business advisor*. Are you ready to be your client's advisor?

## SERVICE INNOVATION

Much of the business services offered by an SMP is driven by compliance and regulation, rather than addressing the needs of their clients. What do clients want? What services should accountants be delivering to their clients? Auditors often cite fee pressure as a top issue. Clients buy into the notion of value, and value needs to be clearly articulated in terms of benefits. It's important to "talk" the clients' language and view the business through their eyes.

We know clients trust accountants, but what do they really want from their accountants? Here are some common observations:

### + **Specialised services**

People are willing to pay a premium for specialised services. If you have back pain, do you visit a general practitioner or perhaps a chiropractor? If you analyse your client base, you will be able to find a niche. If you do not have a niche, or you are looking to build a specialisation, you should consider industries or sectors that have a strong and growing demand for your kind of specialised services.

### + **Responsive client care**

Clients of accountants often complain about the slow turnaround time to emails and phone calls. Practitioners can consider introducing Client Care Standards, classifying clients into different "priority" categories. For example, "A" class (Gold) clients should be treated with exceptional care, followed by "B" class (Silver) clients, and so on.

### + **Proactive, strategic advice**

Most accountants are reporting history, providing financial statements that are already out-of-date, which do not really help clients. Turning this around, the first step is to start producing relevant financial information for better decision-making. Accountants should start building skills in management, governance, strategy and human resources. This may seem a giant step, but SMPs can start with proactive financial analysis skills, like producing monthly management accounting and variance analysis.

### + **My accountant does not understand my business**

Do you really understand your client's business? When was the last time you visited your client, met the company employees or walked around the premises? Do you understand the components of the client's revenues and key drivers of the business? Do you know the key challenges your client is facing?

### + **Other services** (beyond traditional compliance)

If you wish to deliver value-added strategic advice to help clients make better business decisions, you would need to have a practice technology platform to access your clients' information in real time. With technology, you can function as your client's Virtual CFO and expand your service offering.

So, what is the right mix of compliance and other services? SMPs are typically over-weight on compliance, which represents close to 70% of revenue, as compared to less than 25% for the Big Four firms, according to the Singapore Accountancy Commission's AECensus2015. A goal of 50% seems a reasonable target for most practices to achieve.

In Singapore, the next big opportunity for accountants could potentially come from Wealth Management and Financial Planning. Typically, financial planners and advisors are perceived to be salesmen, so there is an opportunity for accountants to raise the bar as the trusted advisor. With the right business model (fee for service, not commission) and use of financial technologies, there is much potential to specialise in this space.

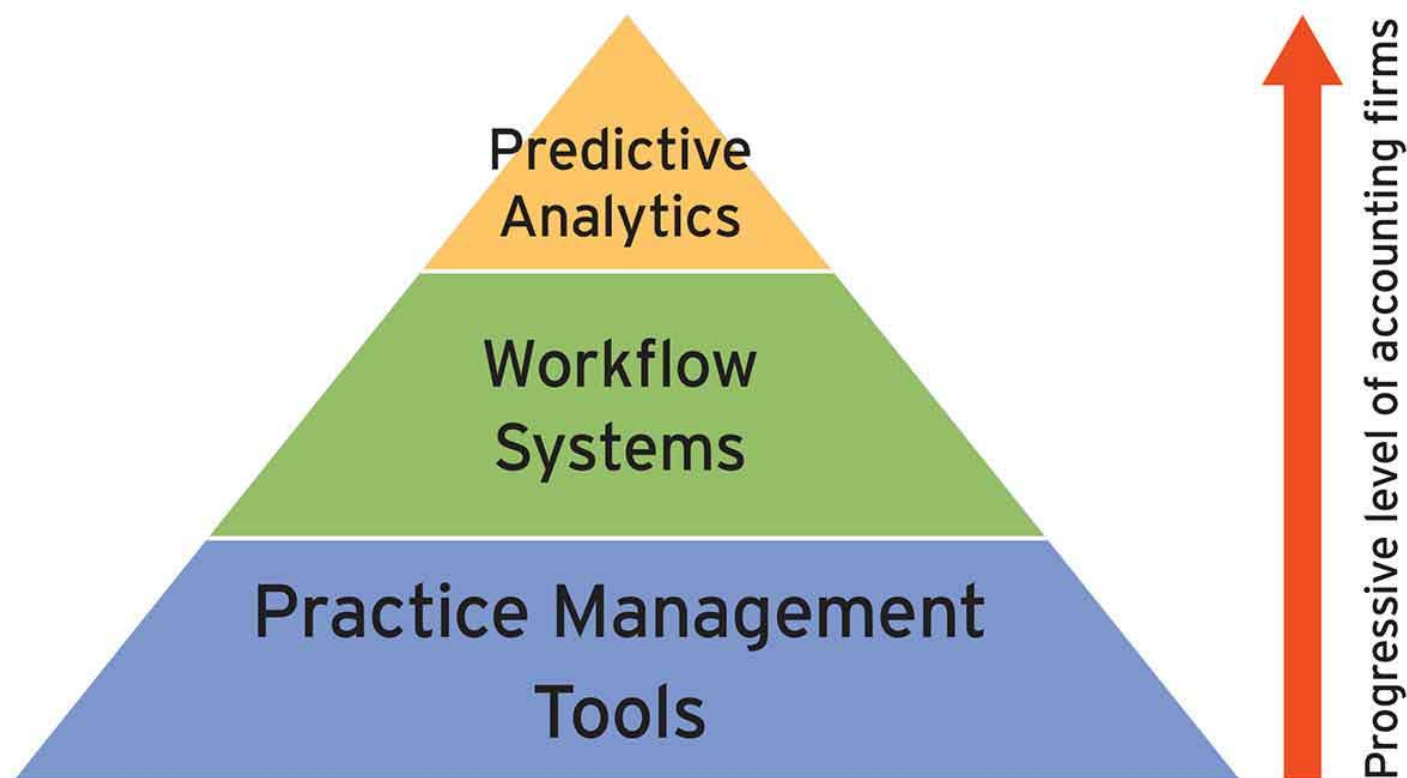
## TECHNOLOGY INNOVATION

Like it or not, technology is here to stay and cloud technology is one of the key technological innovations in this decade. The proliferation of smart devices has also catalysed the usage of mobile applications. Accountants have to move fast to adapt or face being obsolete.

Technology is not just about driving efficiency and reducing costs; practitioners can also leverage it to deliver better service to clients, and attract/retain key employees.

Figure 1 shows the different systems that a progressive accounting firm should ideally have, from the most basic to the more advanced technologies.

**Figure 1** Technology adoption pyramid of progressive accounting firms



At the basic level, all practitioners should adopt practice management systems that include timesheet management, customer relationship management (CRM), resource allocation and management reporting to keep track of job profitability and reduce manual administrative procedures. Traditionally, timesheets and practice management were plagued by laborious data entry. In fact, many auditors find time-tracking a daunting task.

You can put these days behind you by tapping on tools that enable you to use your mobile phone to clock-in and clock-out.

Next, accounting firms should have systems to help with their workflow. For audit firms, the most basic workflow system required is an audit software to help automate certain audit processes such as input of trial balances, creation of work paper, computation of financial ratios, posting of audit adjustments, execution of planned procedures, and tracking the status of engagement.

By adopting an audit software, firms can enjoy time efficiency of between 20% and 30%, after the first year of usage. In Singapore's costly labour market, productivity efficiency can translate to cost savings for an audit firm. Staff can also be re-deployed to handle other higher-value work amid the manpower crunch. By moving to a paperless environment, practices no longer need to store physical files (saves on rental too), and coupled with a powerful document management system, lost files will be history and file retrieval can be done in seconds.

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In the drive to digitalise a practice, progressive firms are now utilising digital signature software that enables you to personally sign documents or send documents to clients to sign from a web browser or mobile device. This process eliminates the need to sign on physical copies and significantly streamlines processes like executing engagement letters, company secretarial resolutions, etc.

In an increasingly complex business world, predictive data analytics can generate insights, improve internal controls and develop strategic growth strategies for businesses. Such systems can supply knowledge about customer segmentation, derive reliable business forecasts from client data and external data sources, and identify risk areas for the monitoring of controls, thus leading practitioners to richer conversations with their clients.

To date, the use of data analytics is not prevalent among practices in Singapore. This means that first movers have the potential to gain a competitive advantage if they jump on the analytics bandwagon.

As a practitioner, how many of such systems have you adopted for your firm? How do you envision the future of your practice?

## PROCESS INNOVATION

One of the biggest drawbacks for a start-up is working capital. Traditionally, accountants carry out engagements over a period of time, and are owed fees in excess of 100 days – that is a lot of cash tied up. Some accountants feel that they will lose their clients if they do not offer good terms. Be process innovative so that you can set your own terms and create your own collection policies – this is vital to the health of your growing practice.

In recent years, there has been an emerging trend to offshore a portion of work to a lower-cost country. In addition to cost-cutting, the offshore unit helps to port repetitive and mundane tasks out to the backend office, allowing the teams in Singapore to perform higher value-added work and improve client servicing.

It may be resource-intensive for a small firm to offshore certain types of work. Sole practitioners can explore a shared service model instead of investing in, and setting up, your own backend offices.

## **BRANDING AND MARKETING**

Traditionally, branding and marketing an audit practice has never been on the agenda. It is time to move on as *every* great business in the world needs marketing – and accounting should not be an exception.

What is marketing? In simple terms, marketing has two primary functions – to attract the new clients that you desire, and to keep these clients coming back year after year.

When it comes to marketing, start-ups and established practices will have different strategies (Table 1). Start-ups need new clients. Established SMPs have a client base but need strategies to weed out unprofitable clients and jobs, and strategies to cross-sell and upsell other services.

With around 700 accounting firms in Singapore, what makes your firm different? This is a very important consideration, and the first step is for an SMP to create a brand and unique corporate image.

Once you have decided on your brand and image, the centre piece of a firm's marketing function is the CRM system. Your CRM system should be regularly updated and integrated with your accounting software, practice management and other systems, and ideally be stored in the cloud.

Today, building a digital marketing strategy is vital, and it is not expensive. Many of these tools, such as WordPress, are free. Make use of these tools to support your marketing efforts.

**Table 1** Practical marketing tips for accounting firms

Here are a few basic marketing strategies that you can use to kick-start your practice:

- Gather every name card and feed contact details into the CRM database.
- Build a network and memorise your elevator pitch.
- Meet with five or six potential alliance partners and share your vision and how you can work together. This could be a law firm, a banker, an insurance agent, a business broker, etc; connect with them on LinkedIn.
- Create and post blog article(s) on your website, LinkedIn and Facebook pages.
- Create an email campaign and broadcast to all contacts in the CRM database. Engage your alliance partners to share the article with their business associates.
- Find a niche and become a specialist. Create content that is niche, and build campaigns.
- Build an ability to speak at seminars and events.
- Offer free consultation to prospects to discuss their needs.
- Meet with as many people as you can to promote your practice.

## REGIONALISATION

The world is getting smaller. In the past, globalisation was the realm of large multinational corporations. This is no longer the case. Cheaper travel, free trade and the Internet have all brought internationalisation to the doorstep of SMEs and SMPs.

Cloud technology and internationalisation are a match made in heaven. The ability to run a business and collaborate with anyone, from anywhere, at any time, is now an affordable strategy for any business.

Besides managing the bottom line, SMPs should also consider driving top-line growth from generating more non-domestic work by setting up joint ventures, establishing overseas offices and/or forming networks and affiliations with overseas SMPs.

As the ASEAN Economic Community evolves and draws investments into the region, professional services such as corporate finance, mergers and acquisitions, financial due diligence, and valuation are increasing in demand. As most SMEs are served by SMPs, the internationalisation of local SMEs into the region would also increase the demand for professional services provided by SMPs. SMPs should build technical expertise to tap into these regional opportunities.

## CONCLUSION

Audit exemption is a reality for the vast majority of SMEs in developed economies, and accountants are expected to play a different role. Practitioners should be asking the same question as any other business owner looking for success. What services should I be offering my clients? What is my value proposition? What are my clients' expectations of me?

Practitioners should reflect and think deeper about the future. Do not "wait and see" anymore; start work on your strategic vision and marketing plan, and operationalise through improved processes and systems today.



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