

more
than
money



NAB Professional Services

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

For the moments that matter – gaining insight into your industry,
your business and your clients' business needs and values

FOREWORD

BRETT MOORE

GM Professional Services – NAB

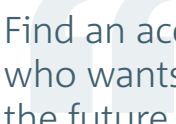

We are delighted to share the first in a series of studies into the Australian Professional Services sector – drawing on the views and perceptions of our extensive SME and accounting customer network. We hope you find these insights of value.

At NAB, we recognise the impact of rapid rates of change on industry, including within the accounting sector. We believe we play an important role in backing our customers with unique insights that help them successfully manage transition and grow their businesses. As Australia's largest business bank, we understand the important role the accounting profession plays in supporting the success of Australian SMEs who are the lifeblood of the Australian economy.

While today's accountants have no shortage of advice, they don't necessarily have sufficient insight into what their business customers are thinking and what's most important to them.

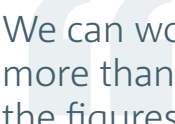

That's why we've brought together NAB's inaugural **Australian Accounting Industry Survey** and NAB's **Quarterly SME Business Survey**, providing a unique and comprehensive report on what accountants' clients truly want.

The report captures the views of Australia's accounting profession as well as more than 750 SMEs across the country. Interestingly, while it highlights areas of consensus between the two groups, it also reveals many important differences between what accountants think their clients want and what their clients actually say they need and value. The result is a unique and invaluable insight into Australia's accounting profession.



Find an accountant who wants to design the future, not write up history.

SME



We can work with more than just the figures.

Accounting Firm

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KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

Customer insights really do matter

Not only are accountants in demand, they are generally well regarded, NAB's inaugural **Australian Accounting Industry Survey** reveals. Nevertheless, many in the profession don't seem to be fully aware of the opportunity this presents, nor how best to capture it.

In order to succeed, it's critical that accountants understand – and respond to – what their business customers really want. As small and medium-sized enterprises (SMEs) evolve they require more diverse and more sophisticated services. Understanding their needs and growing with them is a core element of retaining them.

In order to succeed, it's critical that accountants understand what their business customers really want.

We require accuracy and professionalism, but with a human touch.

SME

All businesses are different and have different needs. I need you to tailor my accounting to suit my business and not some generic all-encompassing program. Listen to what I need.

SME

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

The trusted profession

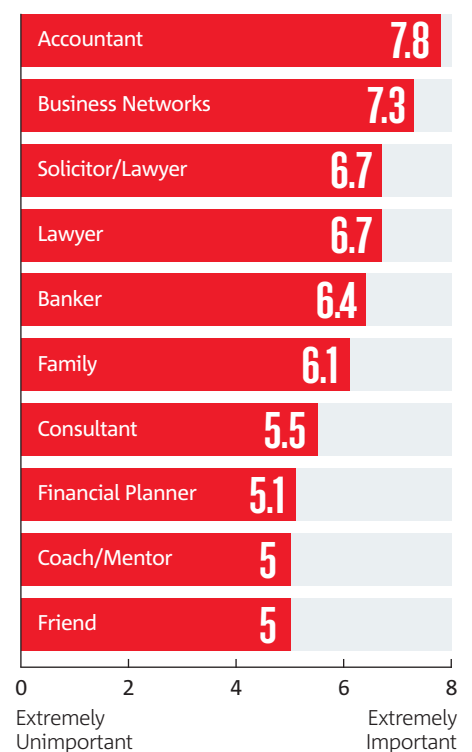
Accountants are considered the most important professional services provider by all SMEs, irrespective of location and turnover. It's little wonder, then, that most SMEs turn to accounting firms more than to any other professional services firm. (Larger businesses with a turnover of \$20 million-plus are the exception here: they're more likely to use a lawyer.)

Nearly all SMEs (96 per cent) have used a professional services firm at some time in their business journey. Accountants have been pivotal, with almost nine in 10 SMEs (85 per cent) relying on their services at some point and a similar proportion (82 per cent) having turned to one within the past two years. The next most popular service is provided by lawyers, with eight in 10 SMEs having used their services – although only 67 per cent within the past two years.

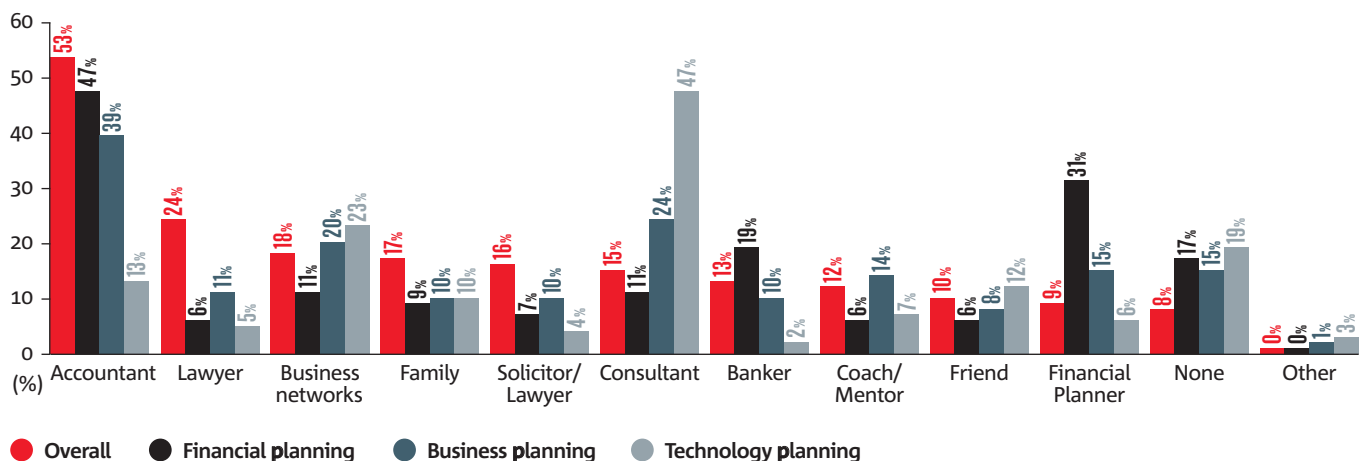
SMEs also consider accountants their most trusted business advisers – just over half putting them in top place. More specifically, accountants are the most trusted profession when it comes to financial services (47 per cent) and business planning (39 per cent).

Interestingly, regional businesses are more likely to trust their accountant compared to those in metropolitan areas (63 per cent versus 52 per cent), as are businesses with a turnover of \$10 million to \$20 million compared to those with turnovers of \$20 million-plus (59 per cent versus 45 per cent).

Accountants are the most important professional services provider in terms of SMEs' business performance



Accountants are SMEs' most trusted business adviser



KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

There are ample opportunities and demand for work

At the same time, accountants are well placed with their service offerings to meet most of the services that businesses turn to professional services firms for.

Businesses use professional services providers for a number of reasons – most typically for legal services (used by 61 per cent of businesses), tax return preparation (52 per cent), audit (44 per cent), technology and IT services (42 per cent), tax planning (40 per cent) and insurance broking (35 per cent). The services used by businesses typically don't change much by business location, although there are some differences by turnover.

On average, the number of accountants offering professional services used by businesses exceeds demand in most areas – except, not surprisingly, in technology and IT, legal services, insurance broking and leasing.

Businesses see growth in IT and legal

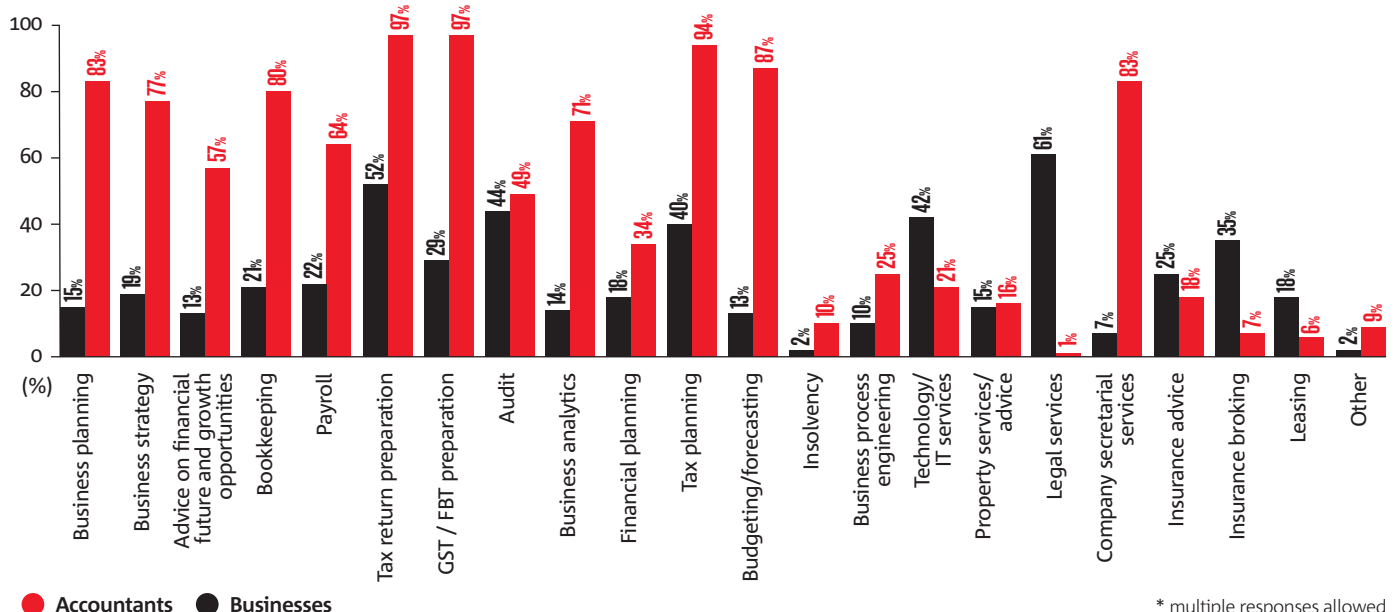
Are accounting firms making the most of the opportunities out there? Not necessarily.

While accountants have benefited from some of the fastest growth areas of business services – tax planning, business strategy and tax return preparation – there are signs they are missing out in the areas that businesses see as growing most rapidly.

Almost half (46 per cent) of SMEs view technology/IT services as the fastest-growing services, while legal services are also seen (by 26 per cent) as being on the rise. In contrast, only 13 per cent of accounting firms identify technology as the fastest-growing area of their practice, while absolutely none of them are positioning their businesses to provide legal services. This is despite a sizeable proportion (31 per cent) of accounting firms saying they believe their clients would most value technology/IT services, and 23 per cent being convinced they'd most value legal services.

Almost half of SMEs view technology/IT as the fastest-growing services.

What services do SMEs turn to professional services firms for – and which do accountants offer?



KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

Understanding clients' needs and values

Accountants might potentially offer a broader range of services to capture a bigger share of the professional services market. In particular, these could include: legal services, technology and IT services, insurance broking, leasing, and insurance and property advice. Business strategy services are also important during the growth phase of a business.

This, however, begs the question: do SMEs want to receive these services from their accounting firms per se?

Most accountants think so. Almost a third (31 per cent) believe their clients would most value receiving technology/IT services in addition to the services they already provide, while almost a quarter (23 per cent) identify legal services as a preferred service. Another 28 per cent cite financial planning.

One in five SMEs would like to receive help with their business strategy on top of the services they receive already.

Yet SMEs themselves paint a rather different picture. According to the survey findings, one in five would like to receive help with their business strategy on top of the services they receive already. They also favour business planning, business analytics and budgeting/forecasting as additional services. In fact, only 13 per cent are keen to receive IT services from their accountants, and just six per cent look to their accountant for legal services.

This means that while there are opportunities for accountants to provide these additional services within their practice, it may be worth focusing instead on the other services that businesses want, such as business planning and budgeting. The fact that these are within accountants' existing skill sets also means they could more easily be capitalised on.

SMEs favour business planning, business analytics and budgeting/forecasting as additional services.

What additional services would SMEs most value/like to receive? The view from SMEs & accountants*

	SMEs	Accountants
Business planning	12%	5%
Business strategy	21%	9%
Advice on financial future and growth opportunities	20%	22%
Bookkeeping	6%	5%
Payroll	7%	2%
Tax return preparation	6%	0%
GST/FBT preparation	6%	0%
Audit	7%	2%
Business analytics	17%	10%
Financial planning	7%	28%
Tax planning	6%	0%
Budgeting/forecasting	10%	4%
Insolvency	2%	4%
Business process engineering	11%	16%
Technology/IT services	13%	31%
Property services/advice	5%	19%
Legal services	6%	23%
Company secretarial services	2%	1%
Insurance advice	8%	11%
Insurance broking	4%	9%
Leasing	5%	5%
Other	1%	10%
None of these	21%	0%

* The responses from accountants are their perception of what their SME customers want

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

SME businesses don't believe they have adequate financial literacy

There may be further opportunities for accountants with regard to financial literacy, however. About a quarter of businesses don't believe they have adequate levels of financial literacy to run their business. Accountants may be well positioned to help upskill these SMEs.

Accountants need to adapt to changing business needs

It's important that accountants don't stand still. The overriding reason SMEs change their professional services firm is that their business needs have altered (about 31 per cent). This means accountants need to move with the times and modify their service offerings to their business clients as they grow and evolve.

There are other reasons SMEs swap firms, too. Nearly a quarter (23 per cent) cite excessive fees as the motivating force, while others point to the fact their accountants gave reactive service rather than proactive advice (23 per cent).

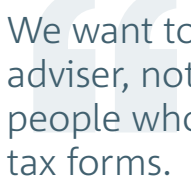
Interestingly, while accountants recognise the latter issue, a sizeable proportion (41 per cent) are convinced that their business customers made the switch because they didn't have a personal relationship with their accountant and wanted one.

Accountants should seek regular feedback from their business clients

Feedback, whether positive or negative, is very important for all firms. It can help improve performance and is a useful tool for continued learning. Yet only one in five businesses say their accounting firm frequently sought feedback from them on the work they did, while half indicate firms did so occasionally.

Of particular concern here is the fact that more than one in four businesses (28 per cent) say their accountants have never sought any feedback – with this figure jumping to 36 per cent for firms turning over \$5 million to \$10 million.

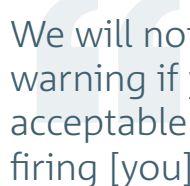
Meanwhile, nearly 20 per cent of accountants confirm they don't seek any feedback on their work. There's every chance they may be missing an important opportunity here to better understand their customers.



We want to be a trusted adviser, not just the people who fill out the tax forms.

Accounting firm

One in four businesses say their accountants have never sought any feedback.



We will not give you a warning if you are not of acceptable quality before firing [you].

SME

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

Retaining, and gaining, clients isn't necessarily the issue

Fortunately for accountants, businesses don't tend to change their professional services provider very often. On the whole, it's a stable and long-lasting relationship.

Fewer than one per cent of businesses have changed their accountant, financial planner or lawyer within the past 12 months. On the other hand, accountants have managed to grow their book of business clients, with very low rates of lost or inactive clients. On average, accountants estimate that the proportion of their total book of business clients who are new is more than 13 per cent.

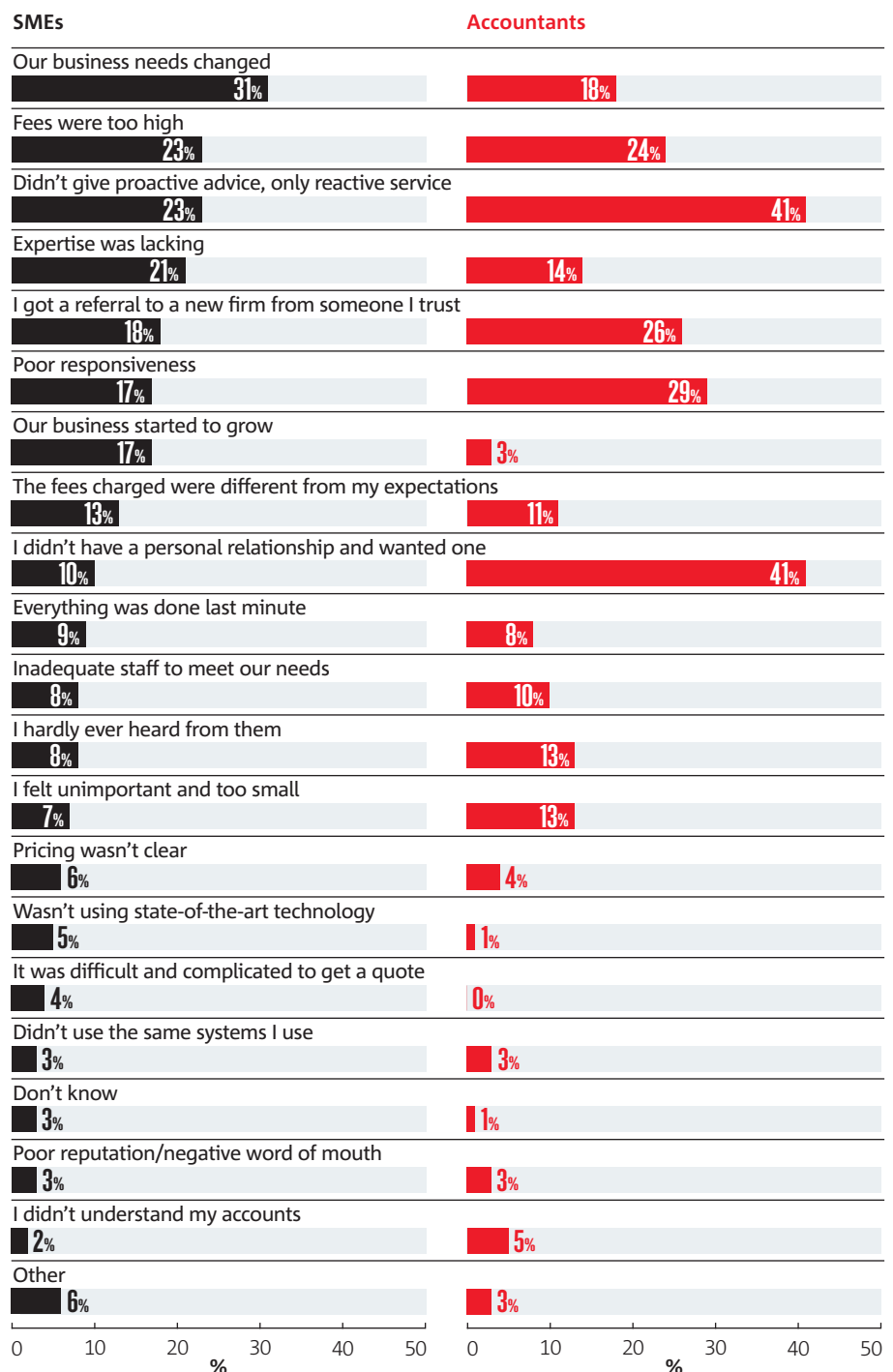
One possible reason for this may be the fast growth in business demand for services such as tax planning, business strategy and tax return preparation.

One per cent of businesses have changed their accountant, financial planner or lawyer within the past 12 months.

Keep changing [your accounting firm] until you find one that makes sense. It took me eight moves and now we have been steady for 15 years.

SME

Why do SMEs switch professional service firms? The view from SMEs & accountants*



*The responses from accountants are their perception of what their SME customers want

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

Client recommendations are critical

This doesn't mean accountants can afford to be complacent. Rather, they need to focus on their whole offering, including their personal relationship with each customer.

There's no doubt this strategy can reap dividends. More than one in two businesses (54 per cent) found their current professional services firms through recommendation or referral, suggesting that a good referral strategy could help accountants connect to and attract businesses to their services.

Let's talk

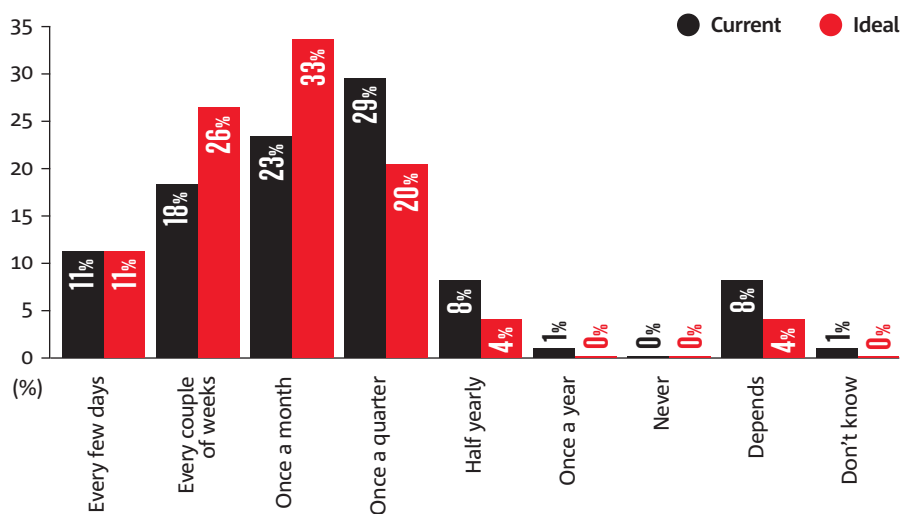
It also means accountants can't afford to ignore the power of a good relationship – and that includes good communication, though there may be room for work here.

Businesses are happy with the degree of their accountants' accessibility, but there's some discrepancy between how often the two groups initiate communication with each other. Almost one in three businesses communicate with accountants every couple of weeks, one in four once a month and around one in five every few days – and they think current communication frequency is about right. But around one in three accountants only communicate with business clients once a quarter and one in four once a month. Only one in five communicate with them "every couple of weeks".

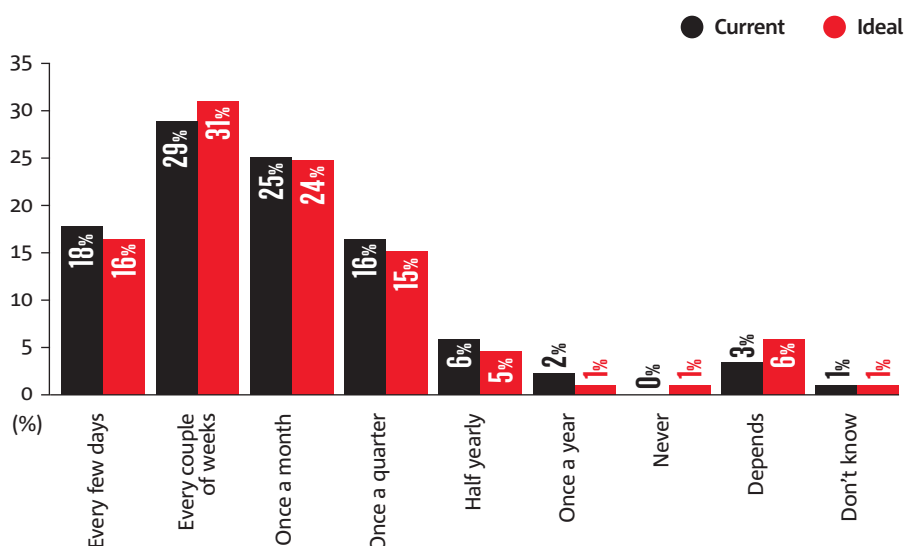
To their credit, accountants admit they should have more frequent contact, which suggests they're on the right track – they just need to be more proactive about it.

One in three accountants only communicate with business clients once a quarter.

How often do accountants communicate with their business client?



How often do SMEs communicate with their accountant?



KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

IT may not be everything

Accountants are using various forms of technology to connect with SMEs. Almost one in two (49 per cent) report sending text messages and one in three (31 per cent) say they use an online portal to share documents. But this is in direct contrast with their business clients. Only 14 per cent text and a mere 10 per cent use online portals to share documents.

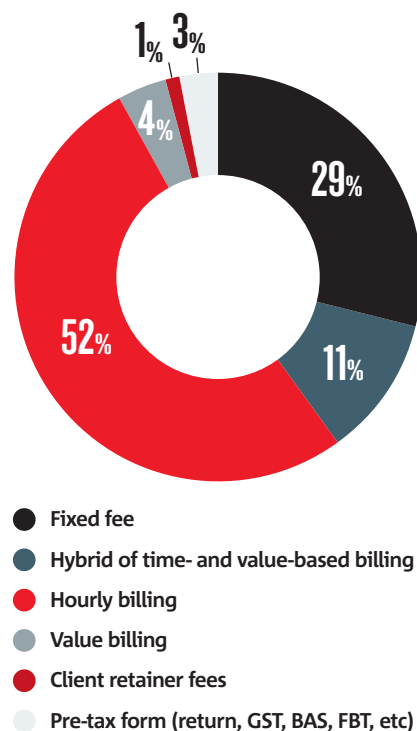
The fact is that IT services aren't high on clients' checklists when it comes to choosing or retaining their accountants. In general, businesses are only moderately interested in purchasing 'real-time' services from their accountants or other professional services firms – although they're more interested if they're in a growth or expansion phase.

Accountants, however, believe their business clients would be far more interested in purchasing such a service. While on average businesses assess their own level of interest at just 6.2 points out of 10 (where 10 is extremely interested), accountants put their clients' interest levels at 7.4.

SMEs are also much less interested in purchasing cash flow-monitoring services than accountants would believe (5.8 versus 7.2) – although, again, they're more interested in these if they're in a growth or expansion phase, including the establishment phase.

**Fixed fees favoured
by more than
one in two SMEs.**

Percentage of fees generated by various billing methods

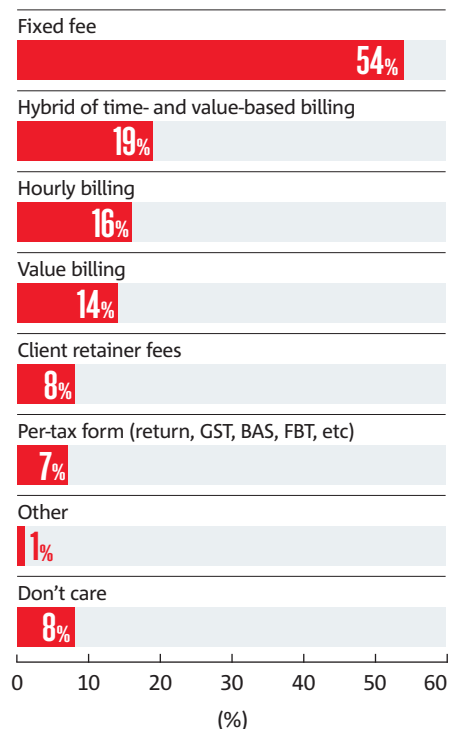


54 per cent of SMEs would prefer a fixed fee, while only 16 per cent would prefer time-based billing

There is one area in which businesses are keen to see progress. When it comes to fees, most of them would be happy to see the end of time-based billing. Only 16 per cent of SMEs prefer this traditional form of billing, while fixed fees are favoured by about one in two (54 per cent) respondents. Another one in five (19 per cent) indicate they would like a hybrid of time- and value-based billing.

This contrasts with current practice, which sees about 52 per cent of all fees charged by accountants to their business clients being based on an hourly billing method.

How would you prefer to pay for your accounting services?



The service that we provide to our clients is not determined by our fees. We do a quality job every time, regardless of the pricing.

Accounting firm

KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

It's about more than money

It may be that accountants want to see some changes too. Despite the clear positives of joining the accounting profession – including the high degree of regard it engenders – not all accountants are convinced of its merits. In fact, accounting's desirability as a profession has declined over the past 10 years.

Accountants are less likely to recommend their profession to their children or other family members than they were a decade ago. On average, accountants self-scored 6.9 points out of 10 (where 10 is completely likely) when asked to what extent they would recommend their profession to their children or other family members as a career choice today. That's down from 7.5 points 10 years ago.

This decline in desirability was more marked among men (6.3 versus 7.7) and over-65s (6.8 versus 8.1), while women showed no change at 6.3.

The bigger (brighter) picture

Perhaps there's an opportunity for industry bodies and leaders to promote the real benefits and success that accounting as a profession can provide.

Certainly today's conditions should lend themselves to a more positive outlook, as evidenced in NAB's **Quarterly SME Business Survey**. SME accountants tower above other business services – as well as the greater SME economy – when it comes to business conditions and confidence.

Trading conditions were a standout in the third quarter of 2017 – at +56 they were more than triple those of all SMEs – while profits, at a lofty +52, were well above the other SMEs, including all other business services.

The only glitch related to employment. With such strong trading conditions and high profitability, staffing levels had come under some strain.

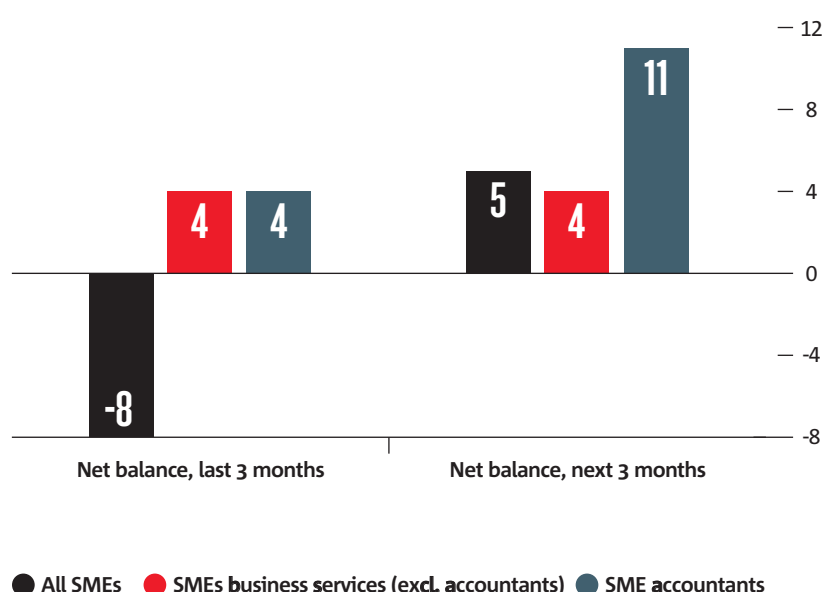
Good prospects for growth

Ultimately, business expectations are high and easily surpass those of the rest of the business services sector. This forecast is supported by all sub-components, led by trading conditions (+67) and profitability (+59).

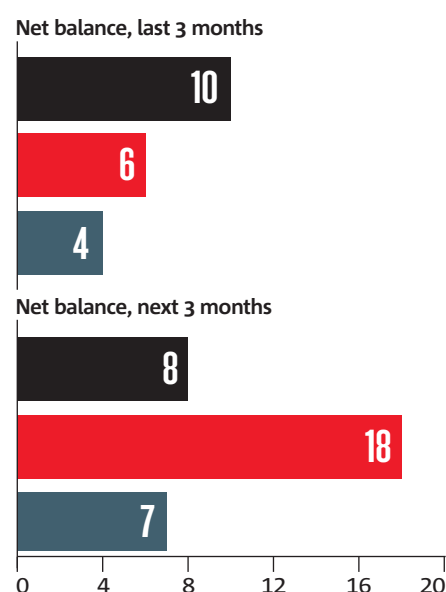
The buoyant mood is further reflected in the fact that SME accountants have increased capital expenditure (+4) – although not to the extent of other business services industries (+6) or the broader SME economy (+10).

This may be why accountants believe sales margins will improve over the next three months (+11). In any case, it's a positive turn of events given that margins have been growing at negative rates for quite some time and were noticeably squeezed over the past quarter.

Sales margins



Capital expenditure



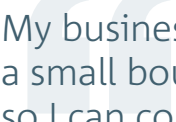
KEY INSIGHTS INTO THE AUSTRALIAN ACCOUNTING INDUSTRY

Preparing for an even brighter future

Of course, impressive short-term figures don't ensure a sunny future and ultimately accountants need to feel confident in the long-term outlook for their business – as, indeed, do their clients.

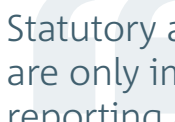
It's why both groups have much to gain from working closely together. By building a strong relationship, based on genuine understanding, both can pursue the opportunities to grow their businesses.

Above all, accountants have to get close to their customers.



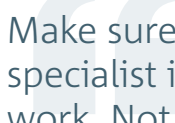
My business will remain a small boutique practice so I can continue to provide the same one-on-one and personable service [my clients] are used to. I will always strive to give them the best service possible.

Accounting firm



Statutory accounts are only important for reporting and tax, but actual profitability and cash flow are more critical.

SME



Make sure the firm is a specialist in your field of work. Not all accountants suit all business.

SME

To find out more, contact your banker or visit nab.com.au/profservices

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