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Media Release

Accounting businesses under pressure as Gen X & Y baulk at equity / succession offers

Wednesday March 25, 2015. The traditional accounting business model based on a partner infrastructure is under pressure as X and Y generation accountants baulk at taking up equity in these practices said Connect Financial Service Brokers (Connect) CEO Paul Tynan. This situation is not only a problem for the accounting sector, but it is being experienced across a broader range of professional service providers that includes financial planners, lawyers, brokers, etc.

According to Tynan the underlying factors that are influencing the new accounting profession entrants includes concerns about valuations, lack of cash flow, not wanting to be equity owners and other lifestyle priorities. "Basically they are generally more comfortable receiving a salary leaving the stress of matters relating to staffing, marketing, cash flow, etc in the hands of practice owners".

"Conversely, there are a growing number of business owners that are reluctant to offer equity as they have come to the realisation that new entrants and potential partner / successor candidates are far from being rainmakers and lack the capacity to generate revenue (if any) for the practice".

These concerns were reflected in the recently released Bstar 2015 Accountants Research Report which highlighted that succession planning is now the most immediate issue facing accountants. The report found there had been a 39% increase in concerns relating to practice succession and this has moved from a strategic to a high 'need to act' operational priority.

Adding to industry woes, 69% of accountants that responded to the survey confirmed they did not have a formal succession plan in place. Connect confirms that owners of smaller accounting practices that have yet to implement a succession and exit plan are already reporting difficulty in attracting and retaining graduates and consolidation will be their only viable option.

The wave of consolidation has been underway for quite some time with larger businesses consuming smaller firms at a rapid rate.

Tynan continued, "Mid-tier accounting firms are looking to 'scale-up' in an effort to best meet the challenge of the *'big four'*. In addition, irrespective of size, accountants are actively reviewing outsourcing as a means of containing costs and freeing up internal resources that can be directed to *'value-add'* and client engagement activities".

"Data security and privacy issues that once were regarded as obstacles to outsourcing are quickly being discarded in favour of more efficient and flexible operational business models".

Although the end date for accountants removal of their AFSL exemption for advising clients on SMSF is virtually on the horizon, the 30 June 2016 date is not being regarded as big – and nor is it driving accountants to review their succession planning.

One obvious opportunity for accountants is to establish relationships or amalgamate with financial planners in order to provide certainty and continuity of service for SMSF clients post June 2016.

In what may appear to be a frustrating environment it is not all gloom and doom concluded Paul Tynan. "Accounting firms are regarded the as the most 'trusted adviser' by consumers. However, while time is still on their side, accountants can grow and improve the value of their businesses by leveraging from the benefits to be derived from restructuring their practices to meet the challenges of a new dynamic financial services market place".

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