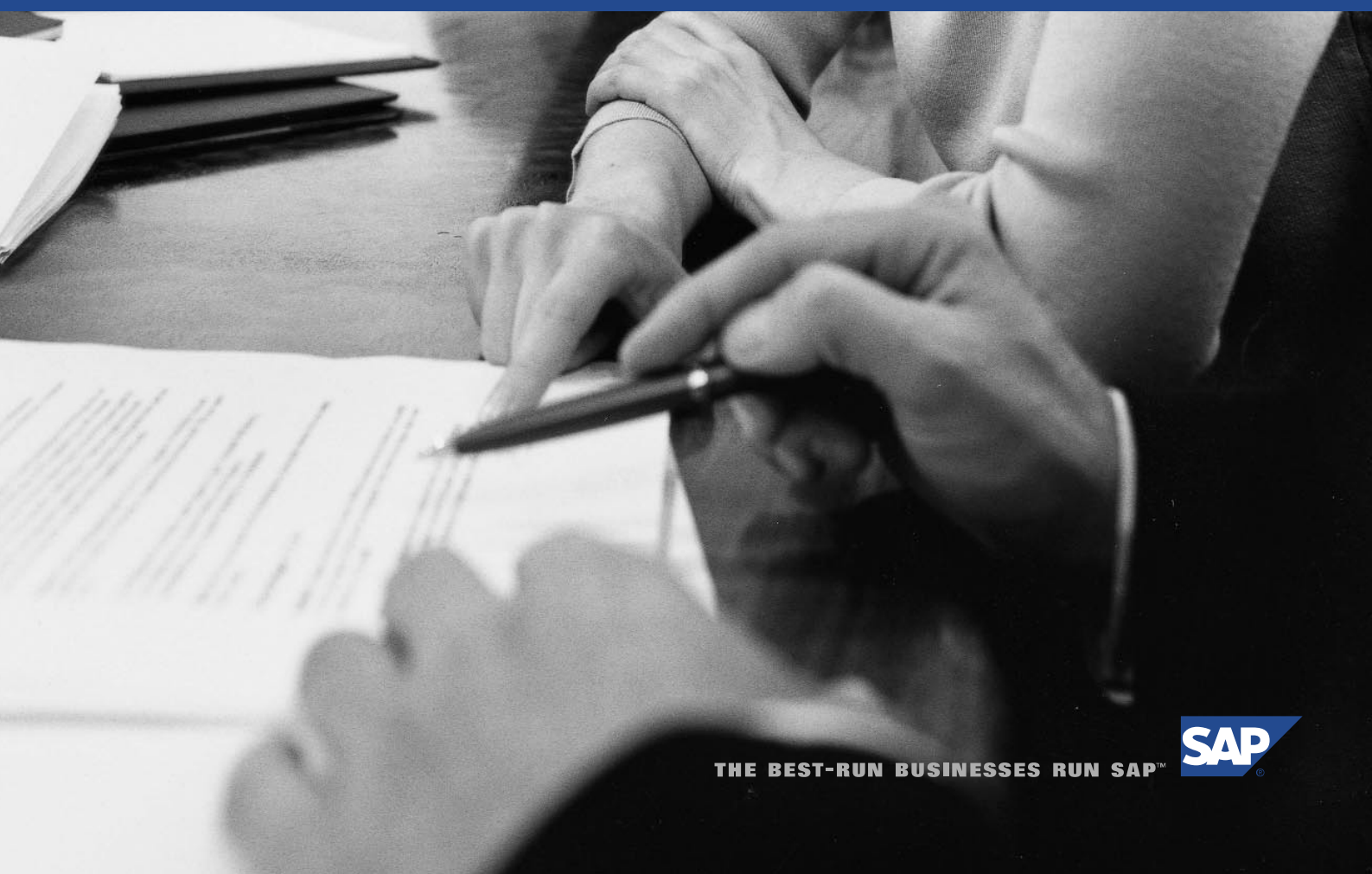




# **MOVING BEYOND ACCOUNTANCY**



THE BEST-RUN BUSINESSES RUN SAP™



## EXECUTIVE SUMMARY

Increased competition and regulatory changes are creating unprecedented challenges for accountancy firms of all sizes. Yet at the same time there are - for some - unprecedented opportunities.

For the Big Four firms that dominate the provision of services to the UK's largest companies, regulatory change is generating enormous amounts of extra work. As clients seek help to comply with the Sarbanes-Oxley Act, the revised Combined Code on Corporate Governance and the shift to International Financial Standards, the firms have gone into recruitment overdrive and are competing intensely for skills and talent.

But regulatory change has been less kind to the accountancy firms that advise Small and Midsized Enterprises (SMEs). Here, the government's decision to exempt tens of thousands of firms from the need to have their accounts audited has broken the statutory requirement that linked many accountancy firms to their clients.

**There was a time when an accountancy firm could rely on a steady flow of annual audit income, and use the audit relationship as a platform to sell other services. But those times have gone. While many smaller companies still choose to have an audit, the higher exemption threshold has opened the market to competition. In short, client loyalty is becoming a thing of the past.**

A report published in 2003 by Spofforth's taskforce identified a growing polarisation among firms advising SMEs: some were running faster to stand still, while an upper quartile of profitable firms were pulling away from the rest.

The firms that were thriving were finding ways to move beyond the traditional service offering, with significant growth in three main areas: human resource consultancy, financial systems administration, and IT consultancy. Accountancy firms have retained their position as the most trusted adviser to business, but the nature of that advice has changed.

With this general decline in compliance work, accountancy firms clearly have to find other sources of revenue. A lot of them see IT consultancy as a way forward, which is being underpinned by changes in the market for business software aimed at SMEs. Previously, only the very largest organisations could benefit from the power and functionality of enterprise-wide business solutions. Now they are within the reach of much smaller companies.

Yet SMEs need help to both appreciate and achieve the benefits on offer. As their most trusted source of business advice, accountancy practices are in an excellent position to help.

This environment, which has emerged very recently, represents an opportunity for accountancy practices to build new revenue streams, add value to existing client relationships and win new clients. Forward-thinking firms are seizing this opportunity already.

In doing so, they are deploying their traditional finance and business skills, and their traditional values of independence and objectivity. But they are adding something extra: a willingness to look beyond the basic accountancy package, and to educate themselves about the new types of business solution now available.

While SAP offers business solutions that provide the functionality described in the following pages, the aim of this paper is to alert accountancy practices to new business opportunities:

- SMEs have a critical need to change the way they deploy business software. This is driven both by new commercial imperatives and new regulatory requirements.
- SMEs, increasingly, need help to select and implement business solutions from a growing range of choices.
- Accountancy practices are in an excellent position to advise on the selection and implementation of these solutions, if they think beyond the capabilities of traditional accountancy software.

## **NEW OPPORTUNITIES, NEW BENEFITS**

- **Regulatory changes mean accounting firms serving the SME market can no longer rely on a steady flow of annual audit income.**
- **Forward looking firms are taking advantage of a changing market for business software to diversify into new areas.**

While regulatory changes have benefited the Big Four firms that dominate the provision of services to the UK's largest companies, the opposite is true of accountants serving the smaller and medium sized market. The government's decision to exempt tens of thousands of firms from the need to have their accounts audited has broken the statutory requirement that linked many smaller accountancy firms to their clients.

**Gone is the time when an accountancy firm could rely on a steady flow of annual audit income and use the audit relationship as a platform to sell other services. Firms that only advise smaller and medium sized companies on annual accounts, internal management accounts and tax returns, are having their livelihoods pulled out from under them.**

However, some forward looking firms are successfully creating new sources of revenue by moving beyond accounting and providing human resource consultancy, financial systems administration and IT consultancy. In short, accountancy firms have retained their position as the most trusted adviser to business, but the nature of that advice has changed.

A report published in 2003 by Spofforth's taskforce identified a growing polarisation among firms advising smaller companies: some were running faster to stand still, while an upper quartile of profitable firms were pulling away from the rest. The firms that were thriving were finding ways to move beyond the traditional service offering and explaining the ever increasing importance of IT to their businesses.

## NEW CHALLENGES, NEW THINKING

The business software choices for SMEs have traditionally been limited. A typical SME would run an off-the-shelf accounting and financial reporting package and run separate software to handle areas such as payroll or sales management. The benefits offered by the sophisticated, integrated company-wide Enterprise Resource Planning (ERP) systems used by bigger businesses were, quite simply, out of reach, and the level of investment required unaffordable. Also, SMEs felt that they did not need the functionality that these systems offer. But this situation is changing, creating new opportunities both for SMEs and the accountancy firms that advise them.

From the top end of the business software market, vendors such as SAP have introduced scaled-down versions of their enterprise-level ERP systems, targeted specifically at SMEs. For the first time, SMEs have the opportunity to deploy the sophisticated business software solutions that offer more than just accounting and financial reporting. And as business competition intensifies and changes to the compliance and regulatory framework put the accuracy of business information under more intense scrutiny, the case for such investment is more compelling than ever.

SMEs that make the transition to this powerful new breed of software will be able to pursue new opportunities and achieve competitive advantage. But they need to be reassured that they are not buying into a system that will be expensive to implement, difficult to use, and complex to maintain. In choosing their software solutions, they need advice on how to balance long-term needs for innovative solutions that drive growth with their near-term needs for a quick return on investment, low cost of ownership and minimum disruption to current operations.

Accountancy firms are in an excellent position to advise clients on how best to make this transition. Indeed, many are performing this role already. They have moved beyond advising on the choice of accounting and financial reporting package. In doing so, they are developing new revenue streams from consulting, advisory and project management roles. They are combining their core financial skills with a reputation for integrity and independence to find new ways of providing value.

- Surveys suggest that SMEs are dissatisfied with their past investments in financial and accounting software.
- Government research says SMEs need help to cross the "digital divide" that limits their ability to compete, grow and unlock the value of IT investment.

The software needs of SMEs are changing. With the complexity and global reach of today's business environment, SMEs are under great pressure to monitor their processes and financial performance even more closely. The introduction since 2002 of stricter accounting and corporate governance requirements is intensifying the challenge.

**SMEs are often disappointed by their investments in business software, according to a study by PMP Research, with 40% saying their software does not deliver what they need.**

**The most common reasons why business software failed to deliver were:**

- **failure to change internal processes (cited by 56%)**
- **poor or inadequate implementation approaches (33%)**
- **lack of training (25%)**
- **benefits not adequately assessed in the first place (14%)**

*Source: Revving up for the new regs, PMP Research, 2005. [www.pmpresearch.com](http://www.pmpresearch.com)*

## APPRECIATING BENEFITS, ACHIEVING BENEFITS

The need to comply with the US Sarbanes-Oxley Act, to report in line with International Financial Reporting Standards, or to meet the stricter requirements of the revised Combined Code on Corporate Governance is forcing companies to reconsider their approach to business software. Organisations of all sizes are under pressure to provide greater transparency, timeliness and accuracy in reporting and managerial control.

The new solutions that are becoming available to SMEs make this possible. But such companies can be forgiven for treating vendor claims with caution. Surveys suggest that SMEs are frequently disappointed by their investments in financial and accounting software, with products often failing to deliver on expectations. A study released in 2005 by PMP Research found that only a quarter (25%) of companies feel their software had completely met their original objectives, and just 4% say these objectives had been exceeded (see sidebar).

A similar survey\* by the Institute of Chartered Accountants in England & Wales (ICAEW) also found dissatisfaction with financial software; 12% of respondents using accounting packages – by far the most widely used financial software – reported that they had suffered a "business critical failure" of their system during the past two years. The survey found reliability problems in software across the scale, from simple low-cost packages to large complex systems.

*\*IT in Business: A Review of the Market for Financial and Business Software, ICAEW, 2005*

■ SMEs have a critical need to optimise business processes, cut operational costs, and improve customer acquisition and retention.

■ But, increasingly, they need help to select and implement a solution from a growing range of choices.

“The traditional SME approach to software investment means they end up with a mix of packages and fragmented silos of information,” says David Reynolds of the Independent Association of Accountants Information Technology Consultants (IAAITC). “There are some very nice accounting solutions around, but they are just accounting solutions, not total business solutions,” he says.

**“Today, increasingly, there is no reason why small businesses should not have software solutions that are joined up and running off a single database,” says David Reynolds, IAAITC. “The market has been that way for a long time at the enterprise level, but we are now seeing the same types of product become available for smaller businesses.”**

The need for such systems is clear. Facing greater competition, SMEs have a critical need to optimise business processes, cut operational costs, and improve customer acquisition and retention. Success depends on having the ability to keep pace with rapidly changing customer and industry demands, the agility to seize new opportunities quickly and the flexibility to achieve sustainable business growth.

Yet the most recent edition of the Department of Trade and Industry’s (DTI) respected International Benchmarking Survey identified that SMEs are struggling to bridge a “new digital divide.” The DTI found that larger businesses had the scale to employ IT specialists in-house, which meant they could achieve deeper and more sophisticated IT deployments. By contrast, smaller businesses existed in a completely different environment and were unable to reap the true benefits of their IT investments.



The DTI report also identified a “watershed” in the way businesses were seeking to use IT. It stated: “Businesses have invested heavily in Information and Communication Technology (ICT) of all sorts over the last three years, and in many cases found themselves with an expensive depreciating asset, and less than hoped-for benefits.” The SME focus now is on shrewd IT investment, delivering value and enhancing underlying business processes, says the DTI – areas where accountancy firms are well placed to advise.

The DTI report reinforces Reynolds’ view that SMEs need help to navigate their way through the plethora of solutions available. The report quoted one senior executive who noted, “smaller businesses, more than any, need someone to help them exploit technology, but no one’s set up to do it.” Again, the consulting and advisory opportunities for accountancy firms are clear.

**“Businesses have invested heavily in Information and Communication Technology (ICT) of all sorts over the last three years, and in many cases found themselves with an expensive depreciating asset, and less than hoped-for benefits.”**

**DTI Benchmarking Survey**

## **GAINING COMPETITIVE ADVANTAGE FROM IT**

**What do SMEs need their business software to deliver? Every company is different, but there are certain common denominators. To maximise productivity and enable the company to reap the full benefit of its investment, a solution must provide the following:**

- **an integrated and affordable business management solution designed specifically for SMEs**
- **a single system that automates processes and offers an accurate, up-to-the-minute picture of a business**
- **a rapid return on investment**
- **ease of use: giving all users a consistent, intuitive environment that they can learn to use quickly and effectively**
- **power and scalability, enabling a business to grow to new levels of success**
- **functionality to optimise every aspect of a business, from financial accounting to manufacturing to sales and service**
- **flexibility: providing employees with the information they need, when and how they need it**
- **customisation: allowing the business to customise the solution to meet its changing requirements**

## NEW VALUE, TRADITIONAL SKILLS

- Accountancy firms that are able to advise SMEs on the full scope of business software are using their traditional skills and values to create new revenue streams and enhance client relationships.
- Practices need to develop their understanding of the IT solutions available and of how the market is changing – broadening their own horizons and those of clients.

Accountancy practices that work with SMEs derive much of their revenue from traditional streams, such as preparing the annual accounts, creating internal management accounts and completing tax returns. This work is still useful and remunerative, but the most profitable firms are those that provide the best proactive advisory services. Increasingly, the ability to advise on the selection and implementation of integrated business management software – beyond the traditional accounting package – will offer valuable sources of revenue and client value.

A report published in 2003 by an ICAEW task force looking for ways to guide firms on practice development identified a growing polarisation among firms advising SMEs. Some were running faster to stand still, while an upper quartile of profitable firms were pulling away from the rest.

**The firms that were thriving were finding ways to move beyond the traditional service offering, with significant growth in three main areas: human resource consultancy, financial systems administration, and IT consultancy. Accountancy firms have retained their position as the most trusted adviser to business, but the nature of that advice has changed.**

“With the general decline in compliance work, accountancy firms have to find other sources of revenue. A lot of them see IT consultancy as a way forward,” says David Reynolds of the Independent Association of Accountants Information Technology Consultants (IAAITC). “Because IT touches so many parts of a business today, it makes sense that the accountant – as the most trusted adviser – should be able to understand IT issues and should be able to give advice on them to any size of business.”

Phil Shohet agrees. As a director of Kato Consultancy he advises accountancy firms on practice development. “The ability to advise on IT is definitely something a successful firm ought to have as part of its consultancy package,” he says. “Compliance work is a grudge purchase and very, very price driven. But an accountant’s clients appreciate consulting advice because it helps to enhance their profits.”

But both Reynolds and Shohet feel that many smaller accountancy firms do not have the resources to provide the level of IT advice that their clients need. “Small firms of accountants are probably putting in a standalone financial package and helping with a bit of training – that’s where it begins and ends,” says Shohet. “But the advice clients need is considerable, especially in terms of knowledge of the products that are on the market. There are some sophisticated packages available but a lot of small firms just don’t have the capacity to deal with that.” Mid-tier firms like Baker Tilly demonstrate what can be achieved.

## CASE STUDY

### BAKER TILLY - BUSINESS PROCESS IMPROVEMENT SPECIALISTS

Baker Tilly is one accountancy and business advisory firm that has moved beyond the traditional service offering to develop a highly successful IT consultancy.

“We shied away from being a vendor specific reseller because we felt that being a source of completely independent advice to businesses is the key to being a reputable firm of accountants and business advisors,” explains Mark Holland, a partner in the firm’s IT advisory service. “Clearly we understand accountancy and management information, but we also understand IT. By marrying the two together and by understanding the business software that is available in the market, we can look at the business’ requirements objectively.”

Holland says that SMEs considering new business software miss a valuable opportunity if they seek simply to upgrade what they have already or choose a comparable package from a different vendor. “When you put a new system in place there is an opportunity to look critically at how you operate the business,” says Holland. “Nine-times out of ten there are ways that a business can operate smarter, it’s very rare that one operates at maximum efficiency.”

Holland says Baker Tilly will look at a business process “from cradle to grave” and work out how to optimise the process, without worrying about the constraints imposed by the SME’s existing software. Then the firm will help to select and put in place a system that achieves those business objectives. “By looking at the whole business upfront you can create a roadmap for where you want to be – that then drives the system selection process,” he says.

When it comes to selecting the software, “SMEs now have more choice than they ever used to,” says Holland. “They’ve always had to make do with less functionality and couldn’t get an ERP-type solution because, quite frankly, it wouldn’t be cost effective.”

“They now have a choice of larger players such as SAP moving into the market with scaled-down versions of their full ERP systems. SMEs can now have an ERP-style system for an achievable investment that will give them a payback. The next challenge is for those companies to realise that they are in a position to make that shift. And the accountancy firms that are willing to make an investment in skills and to understand how the software market is changing will be able to tap into a fruitful source of revenue.”

Holland says SMEs should look for business systems that offer:

- flexibility of reporting
- speed of implementation
- balance of off-the-shelf modules and immediate functionality, combined with flexibility and customisation
- ability to integrate with other systems, simply
- ability to import data from legacy systems



## CONCLUSIONS

The market for business software aimed at Small and Medium-sized Enterprises (SMEs) is changing, but companies need help to both appreciate and achieve the benefits on offer. As their most trusted source of business advice, accountancy practices are in an excellent position to help. To capitalise on this opportunity, firms need to:

- understand how the range of available business solutions is changing
- identify how their clients can benefit from wider business solutions, rather than narrow accountancy solutions
- appreciate what they can contribute to the selection and implementation process
- recognise the value of independent advice in the process of solution selection
- communicate the fact that choice of solution is primarily a business decision, needing business skills – technical skills are secondary
- separate the way a business could function from the way its existing software requires it to function
- rethink a collection of business processes and match them to an available software solution
- focus on the needs of the business and identify software that is flexible to the needs of the business, rather than software that requires the business to change

Accountancy practices that meet these challenges will be able to build new revenue streams, add value to existing client relationships and to win new clients. Forward-thinking practices are seizing this opportunity already.

THE BEST-RUN BUSINESSES RUN SAP™



**SAP UK Limited**

Clockhouse Place  
Bedfont Road  
Feltham  
Middlesex  
TW14 8HD  
T: 0870 608 4000  
F: 0870 608 4050

[www.sap.com/uk/smb](http://www.sap.com/uk/smb)

**SAP Ireland**

1012-1014 Kingswood Avenue  
Citywest Business Campus  
Dublin 24  
Ireland  
T: +353 1 467 4000  
F: +353 1 467 4050

[www.sap.com/ireland](http://www.sap.com/ireland)

©Copyright 2005 SAP AG. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP AG. The information contained herein may be changed without prior notice.

09/2005/SP

©2005 by SAP AG. All rights reserved. SAP, mySAP, mySAP.com, and other SAP products and services mentioned herein, as well as their respective logos, are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. All other product and service names mentioned are the trademarks of their respective owners.