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Episode title: Accounting firms eyeing strategic growth, says latest Tax Professionals Survey

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Nadya Britton: Hi, this is Nadya Britton, Enterprise Content Manager for Tax and Accounting with Thomson Reuters Institute. Today I'm happy to be joined by Will Hill, Senior Product Manager at Thomson Reuters, to talk about the recently released tax professional report. Will, welcome.

Will Hill: Well, thank you Nadya. Pleasure to be here.

Nadya Britton: All right, well, I'm excited to get going because I can't wait to hear your thoughts and feedback based on some of the key findings from this year's report. You know, I think we should focus our conversation on what we really asked that 500 plus tax firms, which is what are their priorities, right? We're in 2022 and, you know, we're in some place within the pandemic, but we've kind of figured out how we're going to move, right? And for the most part, as a business, you can kind of start thinking about the things that you normally would be thinking about. So, the four things that we focused on in this year's reports were asking firms what for them were key. No surprise, talent was the number one priority, right? Growth, efficiencies and client services. So, I just want to start by, you know, spending a few minutes on kind of each one of those kinds of giving some numbers, right? Like most starting with talent like most industries, not surprising that over 70% of those that we surveyed plan on doing some sort of hiring in the next 12 months. We could go into all of that conversation, but I think it's worthwhile taking a look at the other side of talent, right? Which is what do you do with what you already have? Whether you as the individual or as a manager, right? So, we talked to them about, well, what are some of the things that you think that would make you better at your job and of course, right? Like what makes you a standout tax advisor? What are some of the skills that you think is required and equally, should you, I guess, consider, and no surprising, obviously being an expert in all things taxes, but it was interesting that some of the couple of top findings was around upping their technology skills, communication skills, right? Not just oral, but written, interpersonal, just generally, how do you interact with people, right? It sounds so simple, but I think for tax professionals, that's something that's needing to be a priority in terms of when they think about their business, right? So, it was no surprise that that came up. And then in looking at growth, interestingly, you know we had about 25% of firms say that growth is an important priority for them, and that number may seem a little low, but if you look back at the previous year, which makes sense because everyone I think was just in, "God, I hope I survive this thing, whatever it is", you know, the number actually doubled, so it made perfect sense that firms were obviously having to think about how is it that they move their business forward, and I think flowing into that, you know, is around the conversation of client services. Whether firms were ready or not, 95% of them said that their clients are all saying we need something more from you, so it's not just you doing my taxes, but they're saying business advisory service. 75% said they wanted business consulting advice and over 50% wanted financial planning, right? So again, what do you do as a tax firm to be ready for that? And then lastly, touching on efficiencies, obviously is a top priority. Interestingly, the number, you know, just about 30% of firms said that efficiencies was a priority for them, which was less than the previous year. And for us, we found that a little surprising. So, we kind of dug a little deeper and I think it will make better sense when I kind of say this, that we found that there weren't people that were in charge of "how do you move efficiencies through the firms". So obviously the priority fell, so now

because firms then think they need to be more efficient. They just didn't have the right people in place or someone at the helm saying, "this is how we're going to move it forward". So, that's just a couple of pieces of points I wanted to touch on, but I'd love to hear your thoughts and your feedback.

Will Hill: Well, thanks and you know it was very insightful report. I appreciated reading it and trying to get inside the heads of our customers a little bit more and, you know, 70% of folks thinking about talent, I think the only reason that it's not 100 is 'cause 30% gave up. Like, that's it.

Nadya Britton: I hadn't thought of it that way, wow.

Will Hill: I'm kind of making that up, right? But just from my interactions with firms that really kind of support that finding and validate from just an anecdotal perspective is, everything about talent. I think you're absolutely right that firms are starting to look more at "how do I develop what we have?" and it's not just about because I'm having trouble finding more or finding more that don't cost me an arm and leg, but it's also because I want to keep mine because there is a bit of the rotation going on out there in terms of employment with tax and accounting firms, it seems like and there's got to be ways to keep your staff. And we know from other learning and development research that people are more engaged to their place of business when they're actively involved with learning and when they are growing more, either from a personal perspective or in a responsibility perspective typically, you know, you see those things go hand in hand with one another, but that's something that certainly leads to a better job satisfaction. So, seeing things like "how do we focus on communicating that?" that tells me a couple things. One, it tells me that there's at least some awareness this is an area that many people stink at, OK?

Nadya Britton: Right, right, right? Then it was someone saying, I think that's such self-actualizing to say, "You know I could do better at communication, yeah?"

Will Hill: Yeah, and the other thing I think it draws out is that owners at firms are saying "I can't have everything go through me. I've got to be able to trust more of the team to communicate more thoroughly with our clientele, right?" and so I think that's something else that it really speaks to is how do we, not just teach them a skill they need, or they need to get better in, but then it's got to be connected to a follow-on action. There's got to be something that is motivating that. And I think the other thing that motivates that, let's talk about the client services piece. I believe, and I've said this in a couple different forms before, and every time I do firm owners just sit and nod their heads vigorously at me, clients are more demanding, and they're more vocal than they've been, and I don't think that's a negative thing. I think that when we look at all the shifts in the business environment and the regulatory environment over the last two years ignoring what the catalyst for those were, we've got a group of clientele that are now willing to admit they don't know what they need, but say they need more as opposed to just sit and nod their head at their CPA and say "thanks for what you're doing for me, I appreciate it, do you have any questions" and they say no, but they don't say no 'cause they don't have any questions. They said no because they don't know how to frame them and the intensity of the business environment and the changes that we've gone through as a society even through COVID has, I think, opened up a lot of those business owners to say, Yeah, I need more. I'm struggling with stuff" and they're reaching now instead of holding in, and I think that we're seeing that a little bit more so. So, it becomes even more critical, those communication skills and say, "hey, we're going to start fielding more demand, our client services, we've got to focus on them because our clients are asking for them", but if

we don't learn how to talk to people well, and we don't think about how we communicate, how do we make sure we communicate in a proper way, but also in a way that maybe upholds our brand as to who we are, reflects the culture and the relationships that we're really trying to develop and foster with our clients, those are factors beyond just base communication that I think are important to firm owners into their team members. And so, I think there's a big tie with the talent and client services, in that respect. When you look at a report like this, you can look at each of these four areas and sometimes feel a little bit overwhelmed, right? And say, "Oh, 4 big things", everyone is already talking about it. I don't want to have to look all four of these in the mirror, but I think it's interesting to see the interconnection of these two and say "hey, there are some things that if we were to pay attention in the right precise area, we can begin to impact each of these four functions". So, you know, I think about it in terms of growth and firms having a mindset that is heavier towards growth compared to the survey the prior year. Now, some of that is the survey the prior year may have certainly had survival ahead of growth in the mindset, right? And so, I think that's part of this, where there's a little bit more confidence in having our 'sea legs' now say, "OK, we're walking, how do we run?" and I just mixed like see legs with running and realize it doesn't make sense, right?

Nadya Britton: It's impressive.

Will Hill: Few different sports, I don't know.

Nadya Britton: No, no, it's interesting. Yeah. No, maybe we just combine them. I don't know new Olympics.

Will Hill: Yeah, yeah, so, you know, it's one thing to say, "hey we, we kind of feel confident now let's focus on how do we grow?", but as we also look at that growth is coming in response to the client demand. And I think in more than ever, firms that are willing to talk to clients are saying that getting new clients and getting new service is no problem. And so, either firms are focused on saying let's go get it because it's easier, the clients are more open, the demands are higher, let's go get it while we can, and I think to your point about why wouldn't growth be higher? I think there's a lot of firms that don't want the growth from a client, yeah, from a client numbers perspective, right? So, there may be something that psychologically how do they interpret the word "growth"? So, I don't have a number of firms who say "hey, I don't want more client relationships. I don't want to have to hire more staff because talent is hard to find and I don't want the overhead, I want to focus on where the services are within a client to deepen my relationship with that client and increase kind of each client share of spend with me", and so that's where firms may not be focused on growth from that perspective, but they're trying to grow their bottom line as it is with fewer clients, not with adding overhead of other staff. That may also be where some of the fall down and the concern about efficiency plays in, right? As we really try to ramp up client numbers, we're thinking about the assembly line. We're thinking about the production and efficiency kind of becomes a more critical piece. I think the other reason that maybe efficiency didn't "score" as high on the survey could be that, and this is speculation so feel free to tell me that I'm wrong, but as we look at when we went out as firm for remote work and for hybrid work there was, there was some reimagination of workflow and process and people had to trust the tools that were at their disposal and kind of lean into those a little bit more than before because we couldn't just count on everybody being in the office to walk around and ask a question too.

Nadya Britton: That's right, yeah.

Will Hill: We became a little bit more tool dependent. We saw things like adoption of client portal technology and client meetings online, Sky High and I remember talking to one firm as a rather large firm say hey, we've had portals for 15 years and we didn't cross the 40-50% adoption rate until we hit COVID. And all of a sudden, we're at like 90% with our portals, right? And so, I think that that could be part of the push as to why efficiency isn't as huge of an element right now is that they're focused on adding the right client services "growing" in the right way depending on how they define it, but we've already, I think, a lot of firms have kind of crested some of the efficiency focus I think we'll see that rise again in another year or two. So, what will happen, and this is clearly me being predictive, right?

Nadya Britton: Your crystal ball is out.

Will Hill: Yeah, little crystal ball. Full money back guarantee on this, but you know, as firms develop more of those client services and say "Ah, what do they want?" let me feel that out when you put those things together and they start delivering, then they're going to shift their focus back to the efficiency point. OK, now we know what we're doing. We're comfortable with it. We've groomed our staff a little bit more in some of the skill areas. How do we make this more efficient? And I also think another reason we'll see that is we've seen a lot of revenue growth of firms that was probably one time in the terms of any firms that were helping with PwP ERTC and helping their business clients through that and some of that with the ERTC is still ongoing potentially, but that was last year. Most likely PPP isn't coming back. I think most people that listen to this is hoping it doesn't come back, right? And so, it was it was necessary to go out and help clients and many firms were rewarded for helping the clients as they should have been. The clients are happy to pay it because they got some survival money which is critical for them, but that's not going to recur again this year. Now, other challenges will recur, so the question has to be, you know how are we developing the rest of those client services again to deepen those relationships? One of the things that we're thinking about in that realm, and how we talk to our clients who are more vocal than they have been, but as I think as firms get through 2022, they're going to see a little bit that impact and say alright, inflation pushing prices, the revenue bump from PPP ERTC may be down now I'm going to look back. I've added some other services in. Now it's time to really look at efficiency, right? 'cause the efficiency is some of the cost control piece. So, we may see that a little bit more as well. I mentioned inflation. Maybe we've heard of that, but that may bring in some other price pressures and whenever we see price pressure then it's not always about raising the revenue side then it's "OK, how do we control some of that price pressure from our use of tools that we already have paid for that are in place and in our processes and how do we build those things out?" So, I think that while you saw efficiency dip this year, I think we'll see that become more important again over the next two years for those reasons. So, that's kind of my perspective on the efficiency piece that's there.

Nadya Britton: Yeah, and thank you. I really appreciate, Will, that you mentioned the interconnectedness of everything, right? Because you're right, if you look at these four pieces on its own, it's daunting, right? Again, we could talk about talent for 10 years and still not get anywhere. And I love also your breakdown of growth, because you're right. Oftentimes when someone says growth, you're thinking, oh, go get more. And it isn't sometimes necessarily getting more, but using what you have. And again, building that out and making sure again that you are maximizing, right? That's something that's very key that firms should be looking at. Am I maximizing my client relationships, right? Am I offering them the most that we can before saying "OK, let's go add more to the plate?" So yeah, I really appreciate the interconnectivity of looking at it holistically that one best feed upon the other, right? And build on the other, so thank you.

Will Hill: You know, it reminds me I had a conversation with a smaller firm, I want to say 5 or 6 total staff right now, just a few weeks ago and the owner and I were talking, and they said I feel like I've got a decision in front of me. It's I'm winning clients. And I haven't so far had too much trouble getting staff, but I've maxed out my physical space. I like us being together. What do I do? Do I keep going after it, right? And so, it's just very interesting. Again, there's a talent issue there, there's an efficiency concern with how they have their firms set up to operate, and then the growth piece is just sitting there. They're newer into selling advisory services and not just selling compliance work, and so they're seeing the lift on that and how it's helpful to the margin, but they've got to make some decisions, and you know, they said, "Well what should I do, Will?" And so, what should they do?

Nadya Britton: Yes, what should they do, Will? That's really now at the edge of my seat.

Will Hill: Yeah, I mean the answer, the answer was, "Well, what do you want your business to achieve for you as the business owner?" And you've got to decide what do you want that legacy to be? Is it hey, I want to really grow this thing and I have no problem fighting the talent battle because I want to have a bunch of people that work with me and be part of that team and help in that way and that excites me and gets me out of bed in the morning? Great, go for it. Or you say boy, I don't want to fight the talent battle. That's not what I want to fight. I want to fight some other battles instead. And so, I'd rather turn away clients or kind of throttle the growth a little bit and stage them out and just make sure that I understand and fight kind of the growth and the efficiency battles instead. So, I don't think you can always try to be fighting all battles on all fronts. Some of the large firms, you folks certainly may be able to do that, but a lot of small - midsize firms not going to be able to fight all those battles. You get to pick which ones are relevant to where you really want to take your business and what you want that legacy to be for your firm.

Nadya Britton: That's the perfect note to end on, Will, right? Really for firms to think through where do you want to go and where do you want to be? And then start with where you prioritize, thank you so much for this conversation.

Will Hill: Thank you.

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