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The Evolution of the CPA Firm

The time between the final 1040 sign off and the September 15th and October 15th deadlines, has, traditionally, been spent taking a holistic view of a CPA practice and strategizing where future growth opportunities lie.

But that was then, and this is now.

You can no longer run a firm in 2018 like you did in 1980. The CPA profession is on the precipice of quantum change with disruptive technologies such as blockchain, machine learning, robotics, AI and data analytics promising to reshape the traditional paradigm and workflow of the accounting practice as we have known it.

These encroaching technologies will force firms to pare down their focus on commoditized services and instead, turn their strategic compass toward higher end advisory niches. And in the process, become more of a hands-on consulting entity to their clients – proactively instead of reactively helping them plan.

In fact, predictions are for overall reductions of as much as 50 percent in the billable hours required to provide compliance-based services, due to new technologies which will, within 4-to-6 years, largely automate the audit and tax returns as well as data processing and bookkeeping. That in turn will transform the organizational structure of accounting firms as lower-level staff is replaced with technology.

This evolution within the profession is also evident via myriad billboard ads for many of the larger firms positioned in public spaces such as airports or train stations.

These ads no longer use the word “accounting” in the advertising copy, but instead employ such descriptions as “professionals,” “advisors” or “consultants,” reflecting the ongoing migration of plain vanilla accounting toward consulting services.

<u>What our clients are telling us</u>

While organic growth continues to flourish, as evidenced by an increase of 6.5 percent among the Top 100 firms in 2018, there has been a surge in demand by our clients for what can be termed non-traditional niches such as healthcare consulting, HR & Payroll, Family Offices, Outsourced CFO services and first and foremost, cyber security and IT consulting. Due to the recent spate of massive customer data breaches at many of the “big-box” retailers and healthcare corporations, data privacy protection has leap-frogged to one of the primary areas of growth for many firms, as scores have either begun cyber security units or are in the process of building them.

In a recent survey we sent out to our clients, nearly 80 percent of firms ranging anywhere from $7.5 million to roughly $300 million in annual revenue targeted cyber-security as the primary area for future strategic growth. Other niche areas highlighted in our survey included State and Local Taxes, Family Offices, Cost Segregation and R&D Tax Credits.

Between 2010 and 2014 advisory services grew an aggregate 91 percent among the Top 100. As an example, the nation’s largest firm Deloitte, reported that of the $18.5 billion in U.S. revenues it generated in 2018, some 49 percent stemmed from its consulting services.

Over the past three years, there have been nearly 700 consulting firm acquisitions or “non-traditional mergers” since 2015 – with about 20 percent of that figure facilitated by the Big Four.

The Changing Role of the CPA

In a recent poll conducted by the AICPA’s CPA.com unit, 80 percent of CPAs in a CPA.com survey think their roles will change dramatically by 2025 – becoming more “intimate” with clients and offering a greater number of advisory services, while nearly 60 percent agree that disruptive technologies (such as blockchain) workforce demographics and change management will dictate their roles in the future. In fact, several of the Big Four firms, most notably Deloitte and E&Y have already established “disruptive units” to help consult with clients on how to prepare for this new “tech wave.”

Overall, a strong IT culture has made it easier for firms to consider satellite offices – allowing them to act as one. It also has resulted in firms to partially temper staff shortages, particularly in the case of multiple offices which allows firms to leverage work and frees up the partners to cross-sell services. It will also make your firm more attractive to potential merger partners. In 2018 ideally, a firm should earmark anywhere from 5-8 percent of its top-line revenue toward technology.

In Summary

Traditionally the CPA profession has not been one of the forerunners of change – especially changes of the coming magnitude that promises to impact firms in a way not seen before. However, firms that are proactive will take steps now to change the way they operate in the future, while others who procrastinate will undoubtedly have change forced upon them. Joel Sinkin, President of Transition Advisors was recently quoted as saying “there are 3 different types of firms; one that ignores the changes coming, another that fears it and the third that embraces it. Only one will thrive in the long term.”

We always welcome the opportunity to chat with you about what’s on your mind regarding your strategic plans and based on this article, adding niches into your firm.

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