

HONG KONG 2020

Accounting & Bookkeeping Industry Report

A comprehensive collection of industry and pacesetter insights
to assist your firm's 2020–2021 practice strategy and plans



Beautiful business

**We love
putting reports
like this together
to help you plan
for the future.**

THANKS FOR READING

These stats are based on an online survey we did of 146 accounting and bookkeeping practices in Hong Kong. We aim to be as clear and concise as possible with this info, but we can't promise that it's free of rounding or other errors. The info and commentary in this report is just a guide and should not be taken as taxation, financial or legal advice - you should always check with an independent expert that what you're doing is right for you and your practice.

Cover: Rex Leung, Linkers CPA | Hong Kong

Foreword

We're pleased to share with you this 2020 industry report for Hong Kong. This is the second Xero report on Hong Kong and the latest in our series of industry reports and pacesetter books. This report presents a close-up look at three important areas to help practices gain insights into the differences between leading practices and other firms, so that anyone reading this report can think through key decisions on the way to maximising their success in 2020 and beyond.

This report covers the:

- services opportunities for practices in Hong Kong across the full spectrum of compliance and advisory
- applications used and being considered by pacesetting practices and practice types
- insights from business development and marketing into sources of customers and service propositions

As you read through this report, we encourage you to think about your practice, compare how your firm matches up to other practices, and consider the implications for your firm's 2020 and 2021 priorities and investments. By seeing how other firms are doing compared to the same or different practice types, you can cross-check your plans, priorities and investments. The information on the various applications is a fast way to build a list of apps for review and testing.

Since the very beginning of Xero, we've enjoyed helping accounting firms around the world achieve success on their own terms. We're eager to help you move your practice forward, so please get in touch with your Xero account manager to learn how we can help you. They can also point you to more resources, as we couldn't fit everything in here.

Please continue to share your questions and feedback with us as we plan for 2020 and beyond. You can reach me directly by email.

Doug LaBahn, Ph.D.

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Executive General Manager

Xero Partner Program

Contents

Highlights	4
Participant profiles	6
Services opportunities	8
Accounting-bookkeeping practice types	11
Apps being used and considered by practice type	14
Performance metrics by practice type	17
Metrics for pacesetting practices	22
App use by pacesetting practices	26
Pacesetter behaviour in areas of interest	28
Business development: service propositions and marketing	33
Overall service propositions	34
How Xero can help	39

List of tables

Table 1. Role and seniority of participants	6
Table 2. Participants by practice type	7
Table 4. Practice service propositions	34
Table 5. Client metrics by service proposition.....	35
Table 6. Practice revenue growth and employee metrics by service proposition	36

List of figures

- Figure 1. Proportion of clients on Xero 7
- Figure 2. Revenue mix of the participants in this study 8
- Figure 3. Composition of compliance revenue 8
- Figure 4. Composition of repeatable advisory services revenue..... 9
- Figure 5. Composition of complex advisory services revenue..... 9
- Figure 6. The three accounting firm practice types..... 11
- Figure 7. Average compliance and advisory service revenue in the last 12 months..... 13
- Figure 8. Data automation app use and consideration 14
- Figure 9. Forecasting, budgeting and reporting app use and consideration..... 15
- Figure 10. Practice app used and consideration..... 15
- Figure 11. Average firm revenue growth in the last 12 months 17
- Figure 12. Average annual revenue per small business client..... 18
- Figure 13. Average annual revenue contribution per employee..... 19
- Figure 14. Average number of hours (cost) to serve one small business client 19
- Figure 15. Average regretted high-value client departures in the last 12 months..... 20
- Figure 16. Employee compensation increases..... 20
- Figure 17. Average regretted high-value employee departures 21
- Figure 18. Average regretted high-value employee departures..... 21
- Figure 19. New small business clients in last 12 months by size of firm compared to pacesetting firms 23
- Figure 20. Regretted high-value client departures compared to pacesetting firms..... 23
- Figure 21. Average hours (cost) to serve one client compared to pacesetting firms 24
- Figure 22. Clients using online accounting compared to pacesetting firms 24
- Figure 23. Clients using Xero compared to pacesetting firms..... 25
- Figure 24. Practice management app usage compared to pacesetting firms 26
- Figure 25. Data automation app usage compared to pacesetting firms 27
- Figure 26. Forecasting, budgeting and reporting usage compared to pacesetting firms 27
- Figure 27. Approach to helping clients with accounting software decisions 28
- Figure 28. Approach to helping clients with bank decisions 29
- Figure 29. Client engagement levels of practice team members 30
- Figure 30. The firm’s most important objective for the year ahead 30
- Figure 31. Investment plans to increase advisory services compared to pacesetting firms..... 31
- Figure 32. Sources of new clients 33
- Figure 33. Marketing investment by pacesetter and other firms 37
- Figure 34. Marketing investment by type of practice 37

Highlights

The results show that pacesetters are experiencing faster growth: 31.3% versus 9.4%. These practices are using more data automation, practice apps and reporting apps, and enjoying greater efficiency as measured by fewer hours to serve clients. Interestingly, the benefits of efficiency and automation are being shared with clients through lower prices (\$4,725 versus \$5,380).

Results across all firms

Average revenue growth rate for practices in the previous 12 months*

10.3%

Percent of practices currently using data automation apps**

25%

Percent of practices currently using practice management apps***

52%

Average revenue per employee

\$253,000

Average total advisory revenue

\$264,000

Average annual billing per small business client

\$32,600

Direct and indirect/admin time to serve one small business client in a year****

518 hours

Revenue per employee hour including all non-client-facing employee time*****

\$63

* 146 accounting and bookkeeping practices in Hong Kong, September 2019

** Data automation apps include AutoEntry, Datamolino, Hubdoc and Receipt Bank

*** Practice management apps include CCH iFirm, MYOB, Xero Practice Manager, Sage or similar

**** Total employee hours including non-accountant employees and all aspects of serving clients

***** Small businesses are defined as businesses with up to 100 employees

Results for pacesetting firms*

Average revenue growth rate for practices
in the previous 12 months

25.1%

Percent of practices currently using data automation apps

48%

Percent of practices currently using practice management apps

78%

Average revenue per employee

\$252,000

Average total advisory revenue

\$616,000

Average annual billing per small business client

\$31,700

Direct and indirect/admin time to serve
one small business client in a year

249 hours

Revenue per employee hour including all
non-client-facing employee time****

\$127

* Pacesetting practices are the top 15% of firms with high growth and revenue relative to practices of similar years in business.

Participant profiles

Definitions

TYPES OF FIRMS

For the purposes of this study, we defined:

- sole practitioners as having no employees other than the owner
- small firms as having 2 to 9 employees including the owner
- midsize firms as having 10 to 19 employees including partners
- large firms as having 20 or more employees including partners

Where there were only a few responses, we've omitted the results from this report.

SMALL BUSINESSES/SMBS

When we talk about small businesses, we mean those with up to 100 employees.

Participants' role in their firm

This table shows the role and seniority of the survey participants in their accounting firm. By and large, they hold senior positions.

	Number of participants	Owner/Managing partner/Partner/CEO	Senior manager/ Team leader	Accountant or bookkeeper	Not disclosed	Total
Sole practitioners	9	100%	0%	0%	0%	100%
Small firms	41	61%	22%	15%	2%	100%
Midsize firms	25	56%	24%	12%	8%	100%
Large firms	14	43%	21%	36%	0%	100%
Not disclosed	57	0%	0%	0%	100%	100%
All firms	146	37%	12%	10%	41%	100%

Table 1. Role and seniority of participants

Proportion of clients on Xero

This figure shows the relationships of firms with Xero as measured by the percentage of their small business clients who are currently using Xero for their accounting. The participants represent a good cross section of accounting firms in Hong Kong at varying levels of experience with Xero including 17% who don't have any clients on Xero.

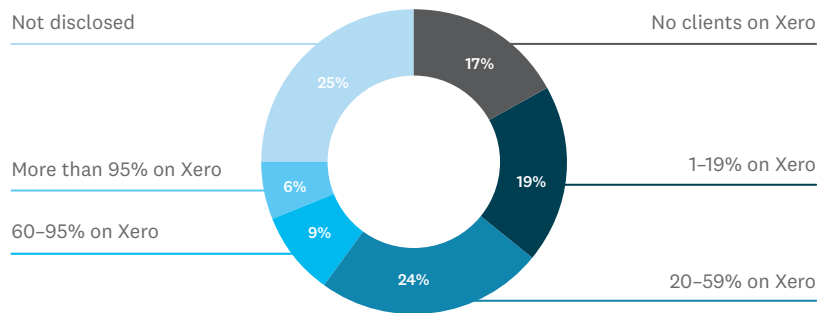


Figure 1. Proportion of clients on Xero

Participants by practice type

This table shows the number and role of survey participants, broken down by type of practice.

	Number of participants	Owner/Managing partner/Partner/CEO	Senior manager / team leader	Accountant or bookkeeper	Not disclosed	Total
Compliance	19	58%	26%	11%	5%	100%
Repeatable advisory	10	70%	20%	10%	0%	100%
Complex advisory	57	61%	16%	11%	12%	100%
Not disclosed	60	2%	3%	8%	87%	100%
All firms	146	37%	12%	10%	41%	100%

Table 2. Participants by practice type

Services opportunities

Revenue by service area

This chart shows the mix of service revenues across the three different groups based on the 86 participants who provided their service line revenue details for the last 12 months. Advisory services made up 40% of practice revenue and compliance contributed 60%. If we extrapolate these numbers to the estimated 1,500 accounting and bookkeeping practices in Hong Kong, they suggest that the market for compliance and advisory services was approximately \$1.6 billion in 2019, with \$245 million in repeatable advisory and \$390 million in complex advisory.

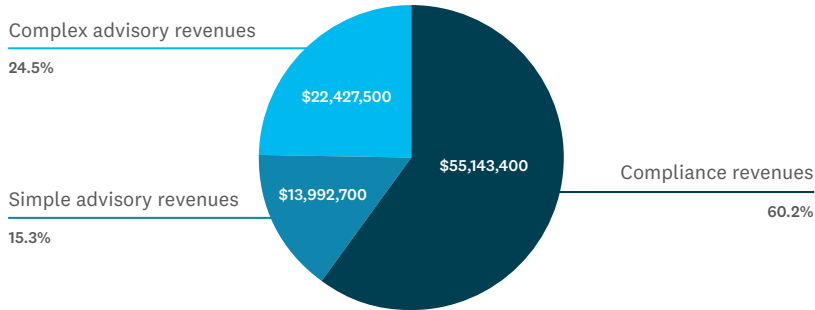


Figure 2. Revenue mix of the participants in this study

Composition of compliance revenue

This chart shows the share of revenue earned by each of the main compliance services.

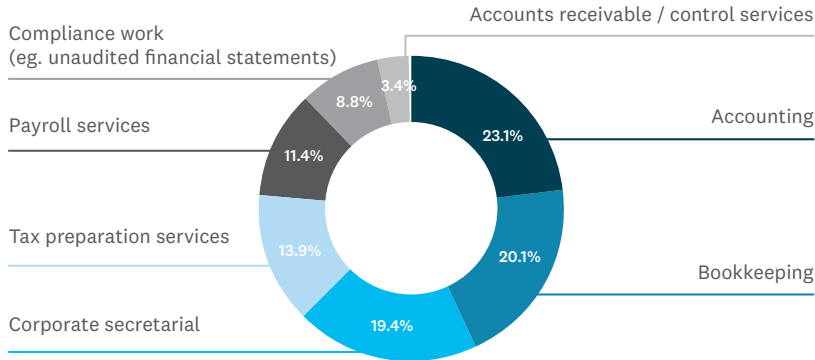


Figure 3. Composition of compliance revenue

Composition of repeatable advisory services revenue

This chart shows the share of each of the main routine advisory services. The largest share comes from providing tax advisory (39%) followed by cash flow forecasting, budgeting and planning (31.8%), startup mentoring (17.7%), and software implementation (11.3%). These services are valued by a wide range of businesses, largely repeatable with limited customisation, and are a natural next step for accountants once their clients are using online accounting.

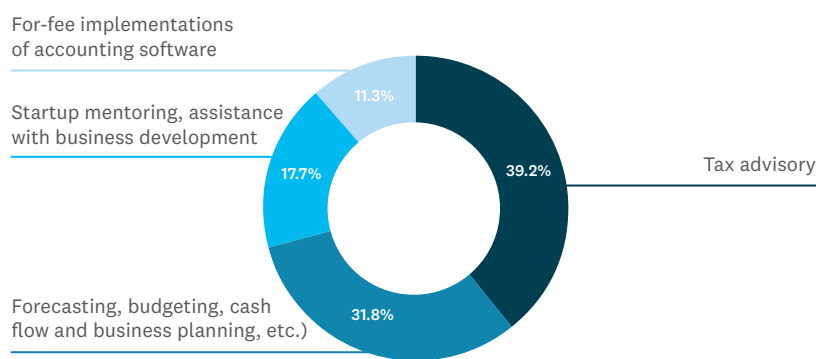


Figure 4. Composition of repeatable advisory services revenue

Composition of complex advisory services revenue

This chart shows the mix and range of complex advisory services. Audit services make up over 40% of the revenue followed by virtual CFO services, then capital raising and other specialised services. These services are largely customised to particular clients and usually require close relationships with clients.

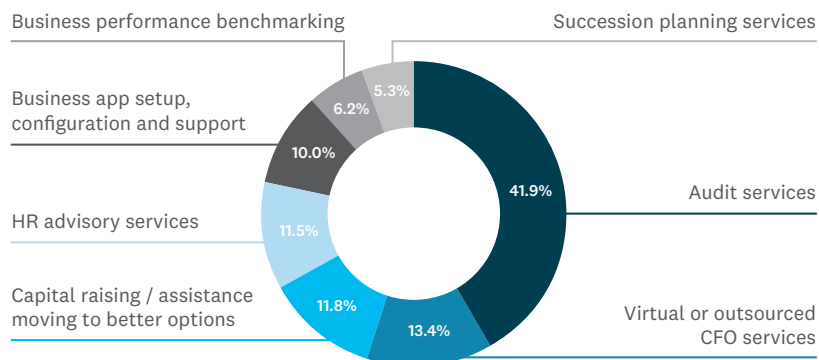


Figure 5. Composition of complex advisory services revenue



Matthew Li, Nova | Hong Kong

Accounting-bookkeeping practice types

Based on our research and insights from leading industry experts, we've identified three types of practices. We classified each participant in this study as one of the types based on the services revenue they achieved in the last year. Each practice type has its own unique characteristics, strengths, and vulnerabilities.

The clearest way to define the difference between compliance and advisory services is by observing that compliance services are required by authorities and look back in time, whereas advisory services are generally optional and look forward in time with projections based on a firm foundation of historical data about the client's business performance.

While advisory services are typically optional for clients, our research has found that they are the most in demand and offer the most direct path for advisors to help clients grow their business and, as a result, increase practice revenue and income.

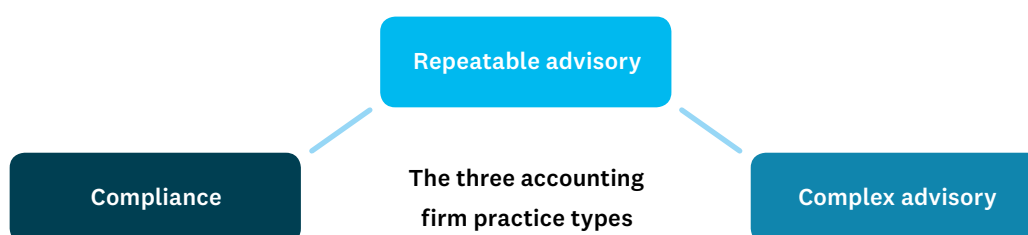


Figure 6. The three accounting firm practice types

The compliance practice

Compliance practices focus on helping clients meet their compliance obligations on time, accurately, and efficiently. Firms choosing to be compliance practices appreciate being able to deliver a highly repeatable set of services that are firmly rooted in the laws and regulations set out by governing agencies. Specific services offered by these practices include accounting, bookkeeping, payroll, tax preparation, and accounts receivable management.

They achieve improved practice performance through gains in process efficiency, and by applying knowledge of compliance requirements to different types of small businesses.

The repeatable advisory practice

The repeatable advisory practice has gained prominence in the last decade. Firms choosing to provide repeatable advisory services are leading users of technology who see that their clients need more than compliance. They need services like cash flow forecasting, budgeting, and planning at reasonable prices, which requires both automation and high-quality bookkeeping and accounting data. An important precondition is that clients have their core accounting information well organised and available online. As a result, these types of practices often require their clients to use their bookkeeping services or to have another very capable person maintain their accounts.

Repeatable advisory practices achieve improved practice performance by using modern accounting technology and offering services that establish regular, ongoing engagement between clients and accounting staff. Very often, these firms pride themselves on offering superior client experiences easily, and efficiently using the latest technology.

The complex advisory practice

The complex advisory practice is common in larger, well-established firms and boutique practices that have earned a reputation for being exceptional at steering businesses through the intricacies of business transactions or complex multi-jurisdictional regulations. These practices appreciate and invest in experienced specialist advisors. Those advisors can be called on when needed by anyone within the broad client base when unusual or complex challenges arise. Specific services offered by these practices include audit services, HR advisory, succession planning, business performance benchmarking, capital raising, and business app/software selection, setup, training and maintenance.

They achieve improved practice performance by developing streamlined processes and a strong market reputation. This ensures a steady flow of complex, interesting and often related cases where clients value and rely on deep accounting and business knowledge. These practices know that finding, nurturing and retaining experts is the key to their success.

Transitioning from one type of practice to another

Based on our experience, firms with the compliance service model can easily evolve into repeatable advisory service practices if they're willing to invest in learning about new technologies and educate staff on using them. In contrast, the switch to (or, more rarely, from) complex advisory practices is difficult due to the need to employ highly skilled employees capable of the intricate work that makes up complex advisory rather than team members who can do the more routine and automated work involved in compliance. However, making the change to complex advisory drives significant revenue growth, as complex advisory is a valued and in-demand service. While demand for compliance work remains strong in all markets, margins for compliance-only practices are lower since business owners most often view compliance as a necessary expense and view advice for growing their businesses as far more valuable and a higher priority.

Compliance and advisory service revenue

For the purposes of this report, we classified the participating accounting firms into the three practice types, based on their advisory revenue in the preceding 12 months. Figure 7 shows the average advisory revenue for each accounting firm business model. The criterion for qualifying as a complex advisory practice was the proportion of revenue coming in from complex advisory services revenue being above the average. The criterion for being considered a repeatable advisory practice was the proportion of revenue coming in from repeatable advisory services revenue being above the average.

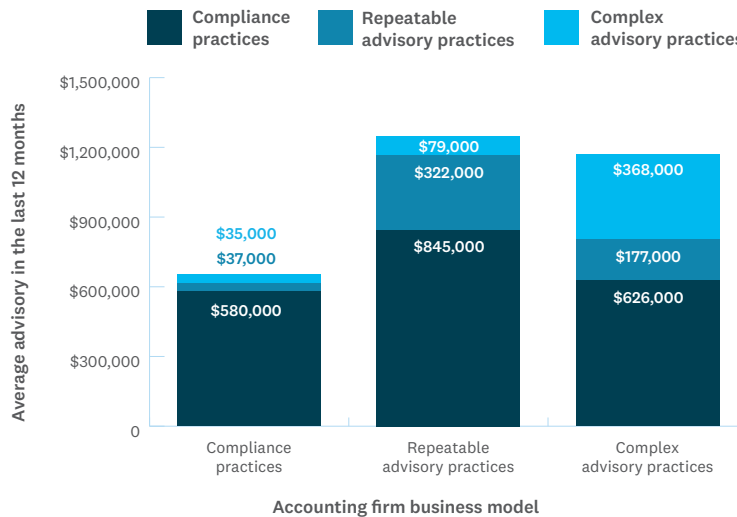


Figure 7. Average compliance and advisory service revenue in the last 12 months

Apps being used and considered by practice type

Two of the questions we are asked most often by accountants and bookkeepers are, ‘What apps should we be considering for our practice to use?’ and, ‘What are other firms like us currently using?’ In this section, we report on what we found for the three common practice types. Further on, we reveal what pacesetter practices are doing compared to other practices and look at the specific apps in each category.

Data automation app usage

The use of technology and apps to fetch, collect and store documents and extract information automatically is a well-known approach for lowering the cost of providing compliance and advisory services. The chart below shows that compliance practices have the highest rates of using data automation apps, understandably since compliance services are document – and information-intensive and lend themselves easily to automation. The chart shows that complex advisory firms are also very active in using and considering new apps.

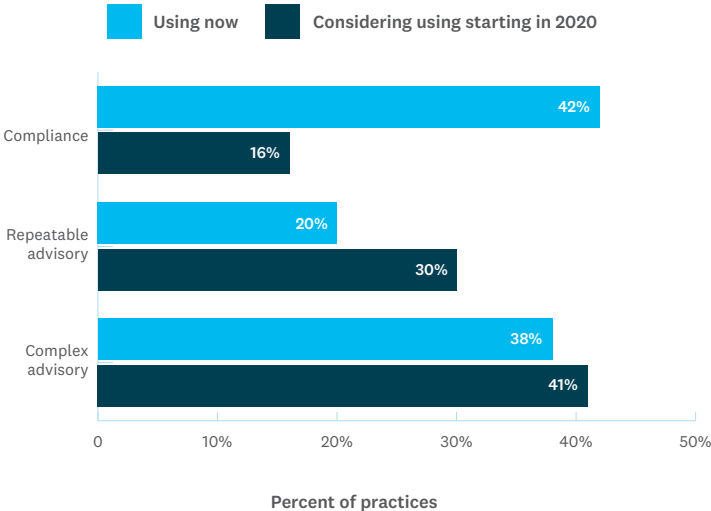


Figure 8. Data automation app use and consideration

Forecasting, budgeting and reporting app use

The use of apps to facilitate the creation and delivery of repeatable advisory services is a more recent development in Hong Kong and other markets. This is evident in the lower percentages of practices using forecasting, budgeting, or reporting apps in comparison to data automation apps. Complex advisory practices have the highest level of use, and repeatable advisory firms are the most likely to be considering them for use in 2020. The results suggest we’ll see a significant rise in the adoption of forecasting, budgeting and reporting apps by advisory practices in 2020.

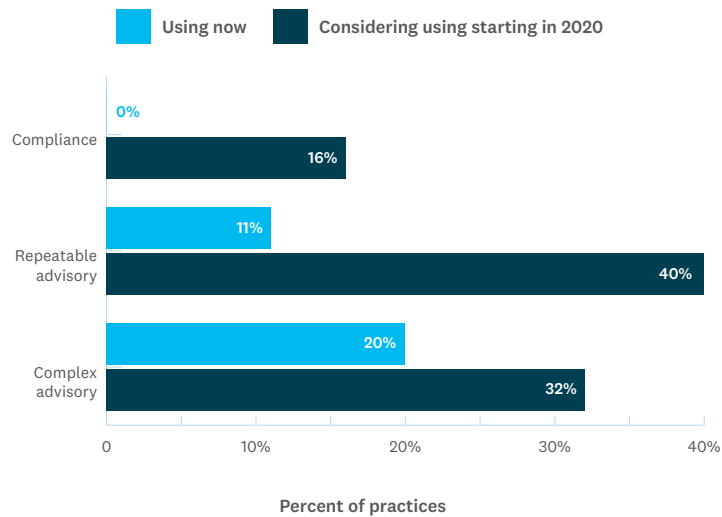


Figure 9. Forecasting, budgeting and reporting app use and consideration

Practice management app use

Not surprisingly, accounts production, tax, and practice management apps are the most widely used and are most often being actively considered. The notable finding here is that even though widely used, more practices are considering new or replacement practice apps than any other type of app we investigated. This suggests that as many as 30% to 50% of all practices are likely to start using new practice applications in 2020.

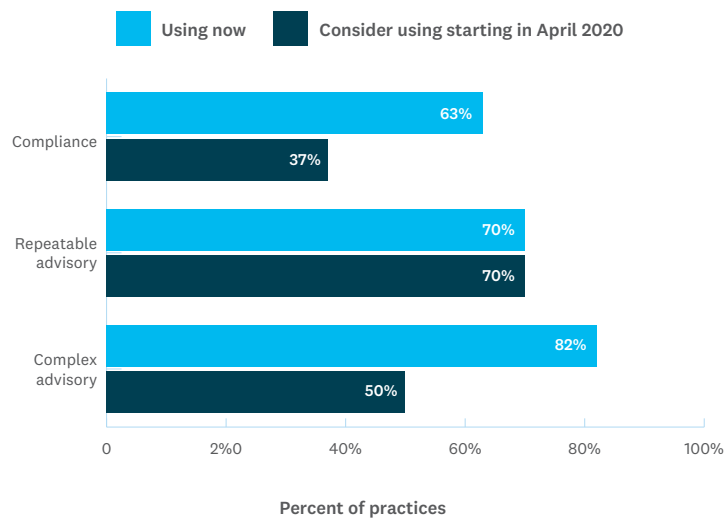


Figure 10. Practice app used and consideration



Elaine, Garage Society | Hong Kong

Performance metrics by practice type

Firm revenue growth

Repeatable advisor and compliance practices report the highest rate of revenue growth, though all three practice types show strong growth. This reflects the strong favourable market conditions in Hong Kong and suggests that the firms participating in this study are above average performers. It's encouraging to see that accounting firms can achieve strong growth whichever practice type they choose.

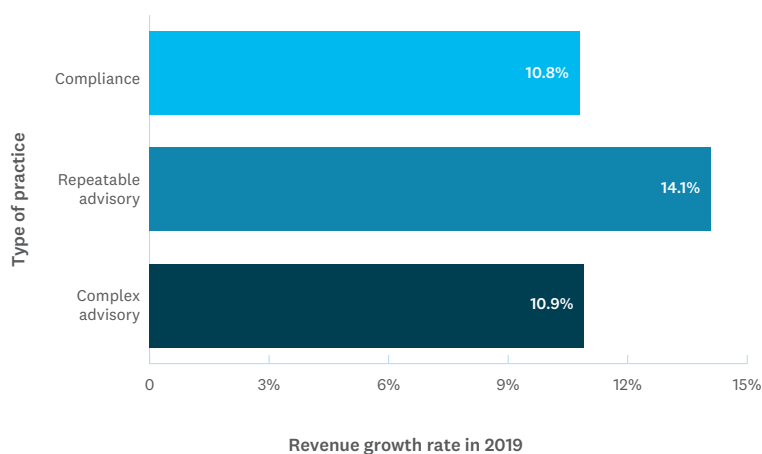


Figure 11. Average firm revenue growth in the last 12 months

Revenue per small business client

These results show lower revenue for compliance with a jump up for firms providing advisory services. As we'll see in figure 13, repeatable advisory service firms are significantly more efficient and may be using their efficiency advantage to profitably offer more client value for similar prices to boost their new client and revenue growth.

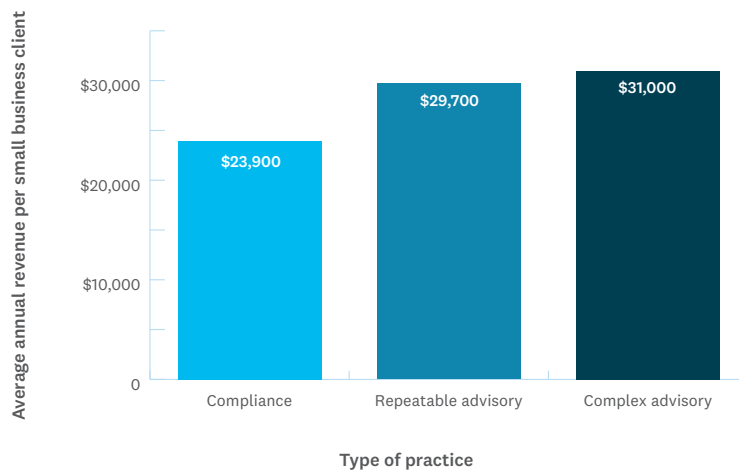


Figure 12. Average annual revenue per small business client

Number of hours (cost) to serve one client

This metric was proposed by accountants who read our previous reports. It's compelling because it captures the total cost to serve clients inclusive of all ordinary administrative time spent on tasks like chasing clients for information, scheduling appointments, filing documents, printing/folding/ mailing invoices to clients, as well as billable hours.

To see how your practice compares on the total hours per client, simply multiply your number of employees by the number of working hours per year and divide by the total number of businesses your practice served.

The average number of hours that firms spend (and therefore the effort and expense) is high for compliance practices, and higher for complex advisory as expected. In contrast, repeatable advisory firms are noticeably more efficient. This is consistent with repeatable advisory firms' emphasis on efficiency and their high use of practice management apps to achieve their goals.

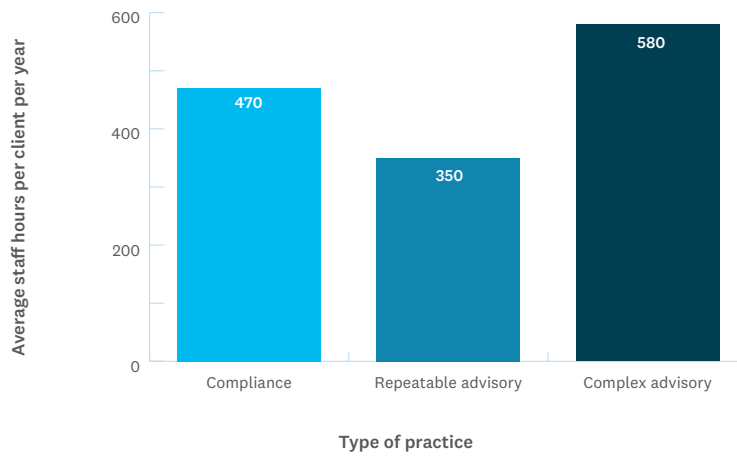


Figure 13. Average annual revenue contribution per employee

Percent of clients using labour-intensive methods

One contributing factor to high numbers of hours per client is the method the client is using to keep track of their business sales, expenses and finances. Figure 14 shows that use of labour-intensive methods (eg, bags or boxes of receipts, spreadsheets, and journals of transactions) varies across the practice types and parallels the hours spent per client shown in figure 13.

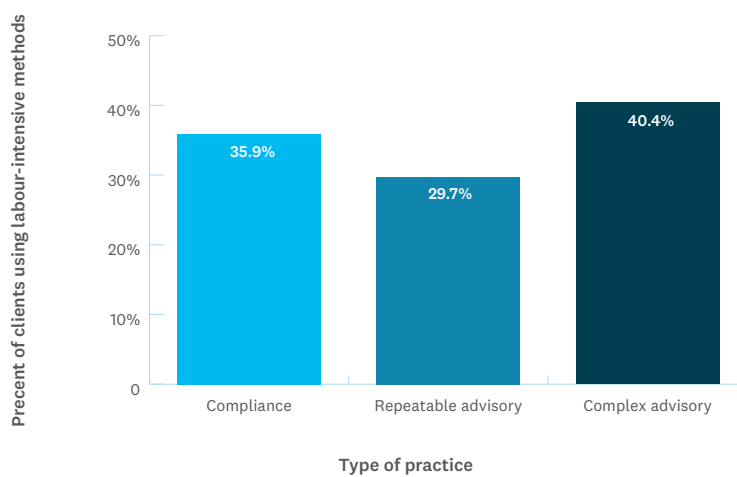


Figure 14. Average number of hours (cost) to serve one small business client

Revenue contribution per employee

Figure 15 shows an interesting pattern where compliance practices are achieving similar revenue per employee by delivering lower-priced, less time-consuming services to their clients compared with complex advisory firms, to achieve similar levels of revenue per employee. Repeatable advisory firms stand out with the best results by efficiently delivering their services (figure 13) and achieving strong revenue per client (figure 12).

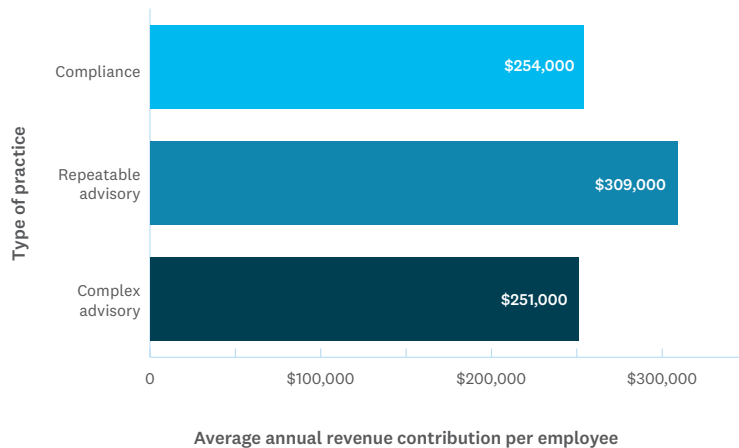


Figure 15. Average regretted high-value client departures in the last 12 months

Regretted departures of high-value clients

Firms with business models featuring compliance are using apps to drive practice efficiency, as noted above. It would be easy to assume that the increasing use of technology might cause clients to feel less personal connection and inclined to switch advisors. However, as shown in figure 16, these firms are doing better at retaining high-value clients than advisory firms. This is a valuable reminder that it's not the use or absence of technology that matters to clients; rather, it's the value the client receives that leads to satisfaction and loyalty to their advisor. Clients receiving lower-priced compliance services appear the least likely to stop working with the firm.

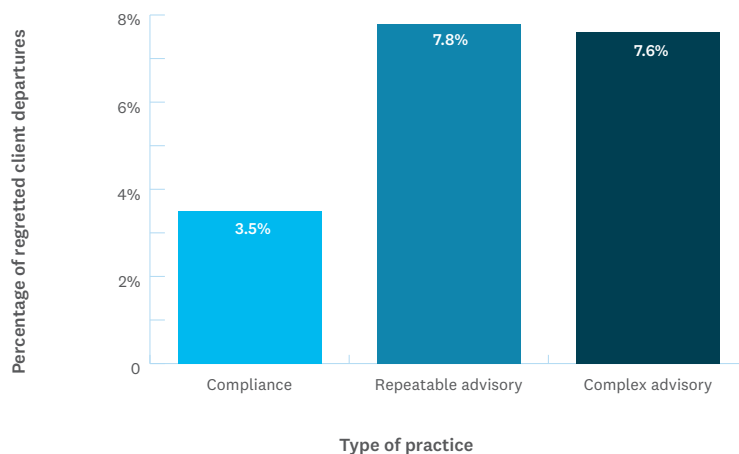


Figure 16. Employee compensation increases

Employee compensation increase

Consistent with the increasing premium placed on accountants' experience and specialist skills, there's a significant difference in the increase in employee compensation between compliance practices and those offering advisory services. This suggests that firms are rewarding accounting staff who build up their advisory, business and application capabilities. It may also be that the demand for advisory skills is high, and staff compensation is being driven upward as firms compete to attract and retain skilled accountants.

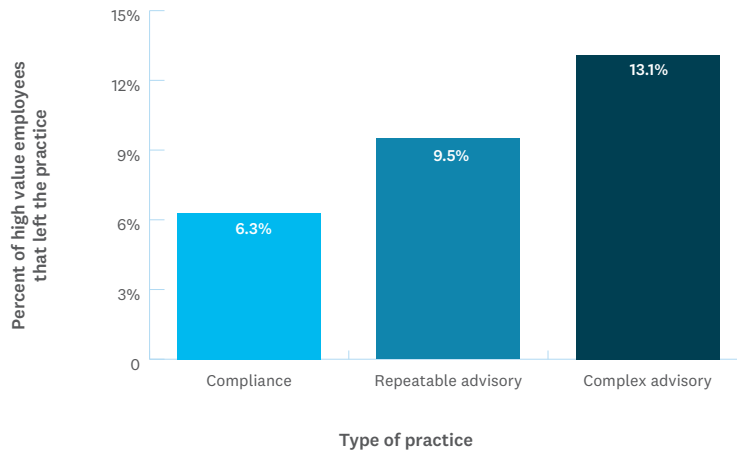


Figure 17. Employee compensation increases in last review cycle

Regretted departures of high-value employees

In response to requests from Xero partners, we've started looking at the ability of accounting firms to retain their most valuable staff. This year we found complex advisory practices had markedly higher losses of high-value employees. We are planning to investigate the drivers of the heightened turnover as we don't have enough information to explain it at this time. We hypothesise that complex advisory firms are losing talent to other practices which are able to offer higher compensation given the higher revenue per employee they're achieving (figure 15).

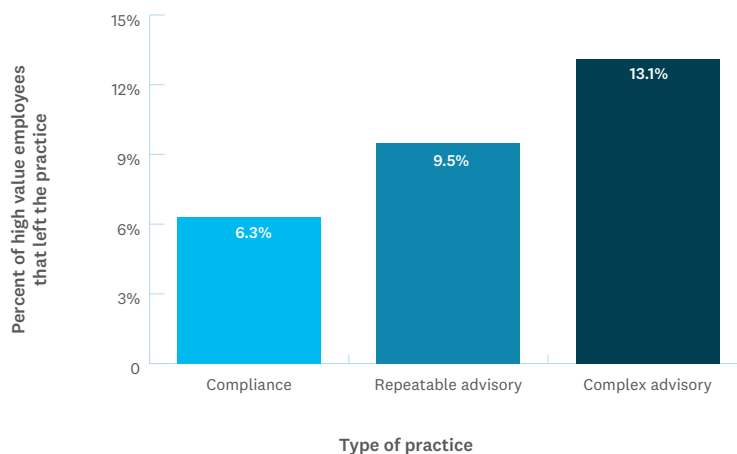


Figure 18. Average regretted high-value employee departures

Metrics for pacesetting practices

As in all human endeavours, we find that accounting and bookkeeping firms want to learn from other practices and are particularly interested in what the highest performing firms are doing. For these reasons, we've identified the fastest growing firms and share a number of comparisons below.

Growth in size and revenue over time

In this table, the figure for the pacesetters (the top 15%) for each age-of-firm group are shown for comparison with all firms in the survey. These figures can help you benchmark your performance and set revenue, staff, and client goals for 2020 and 2021 by knowing what the top and average practices have achieved.

Year the firm was formed	All respondents				Pacesetting firms*			
	Total no. of business clients	New clients in the last 12 months	Firm revenue, last 12 months	Number of employees	Total no. of business clients	New clients in the last 12 months	Firm revenue in the last 12 months	Number of employees
2018 - 2019	93	24.2	\$1,340,000	11.3	286	45.0	\$3,531,000	31.0
2015 - 2017	202	34.6	\$2,553,000	8.3	218	52.5	\$2,849,000	15.0
2010 - 2014	377	39.1	\$3,426,000	10.9	568	90.0	\$5,556,000	15.0
2000 - 2009	87	15	\$1,509,308	14.0	154	19.3	\$2,204,000	10.8
Before 2000	105	22.3	\$1,074,850	17.3	229	22.4	\$2,412,000	20.4
Average	210	26.9	\$2,406,000	12.8	244	44.4	\$2,996,000	17.4

* Top 15% of firms with high growth and revenue relative to firms of the same business age.

Table 3. Growth in firm size and revenue over time and compared with pacesetting firms

New clients by practice type

This figure shows the average number of small business clients for different types of practices as compared with their pacesetter peers. Pacesetting compliance and complex advisory firms took on many more new clients while repeatable advisory firms took on fewer.

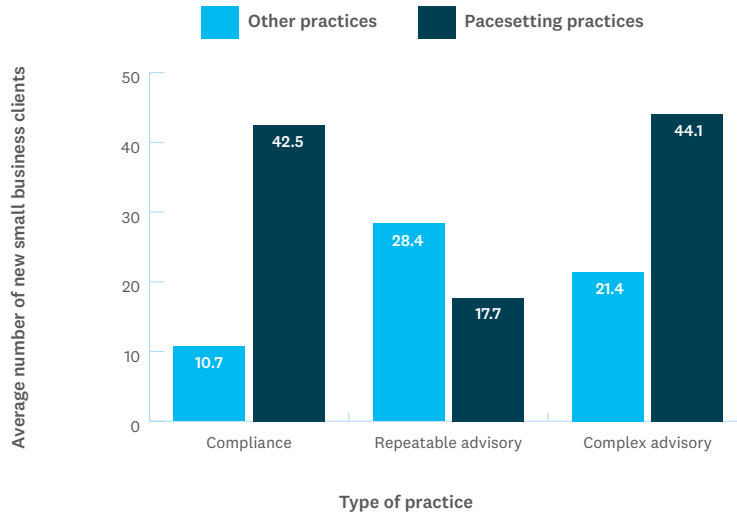


Figure 19. New small business clients in last 12 months by size of firm compared to pacesetter firms

Regretted loss of high-value clients

The graph shows the average number of regretted high-value client departures for different types of practices as compared with their pacesetter peers. Across all types of practices, pacesetter firms have the advantage of losing far fewer high-value clients. The low loss rates for pacesetter firms and the lower cost to serve a client (figure 21) are two of the most important advantages pacesetter firms enjoy.

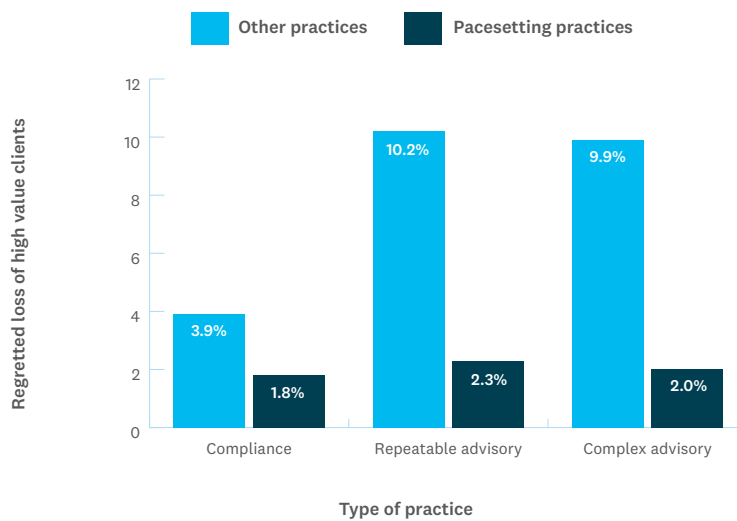


Figure 20. Regretted high-value client departures compared to pacesetter firms

Direct and indirect/admin time spent to serve one client

Figure 21 shows the hours (and therefore the cost) that firms spend, on average, to serve each small business client for the three practice types, and compares the hours with those spent by their pacesetter peers. For pacesetter firms, large efficiency advantages are evident across all practice types.

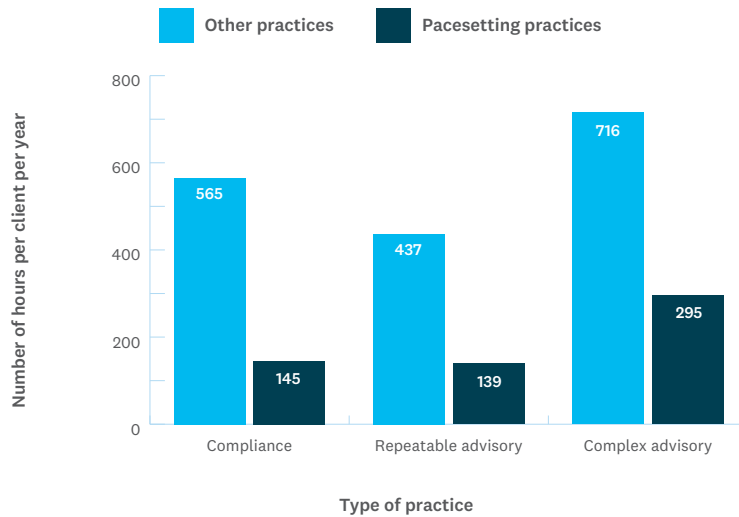


Figure 21. Average hours (cost) to serve one client compared to pacesetter firms

Clients using online accounting

Pacesetters are using online accounting to a greater degree across all practice types.

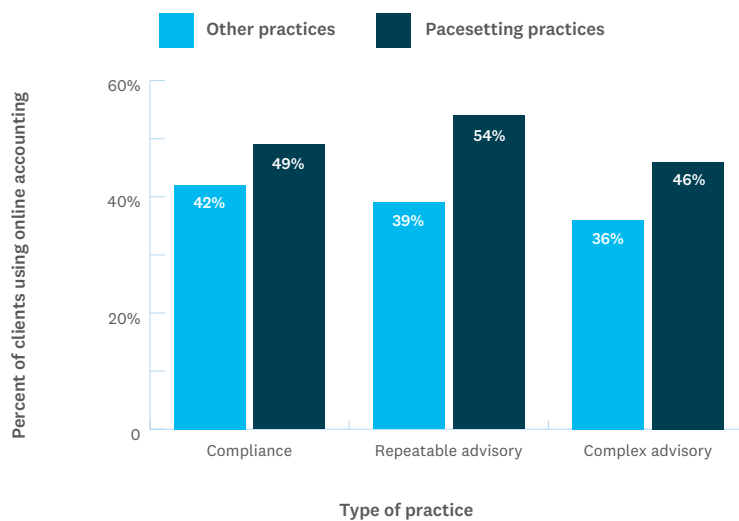


Figure 22. Clients using online accounting compared to pacesetter firms

Clients using Xero

The use of online accounting has been a significant contributor to practice efficiencies as shown in our previous industry reports. In this study, we found that repeatable advisory practices are leading in the use of Xero with a similar level of use in compliance practices and lower rates in complex advisory practices.

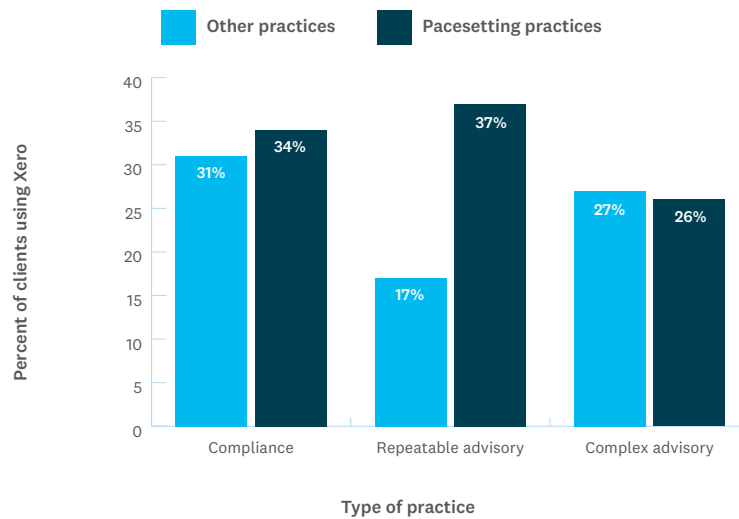


Figure 23. Clients using Xero compared to pacesetting firms

App use by pacesetting practices

Accounting and bookkeeping firms often ask us what the best apps for practices are and what apps are most often used by pacesetting practices. While we can't specify what apps your firm could or should be using without doing a proper analysis of your business needs, we can tell you which apps are currently the most popular with pacesetting and other practices in Hong Kong.

Practice management apps

The figure below shows the practice management apps currently being used by pacesetting and other practices. Overall, pacesetters are using practices apps more often. Pacesetters are favouring Xero Practice Manager and CCH iFirm, while other practices are using MYOB and Sage more often than pacesetters.

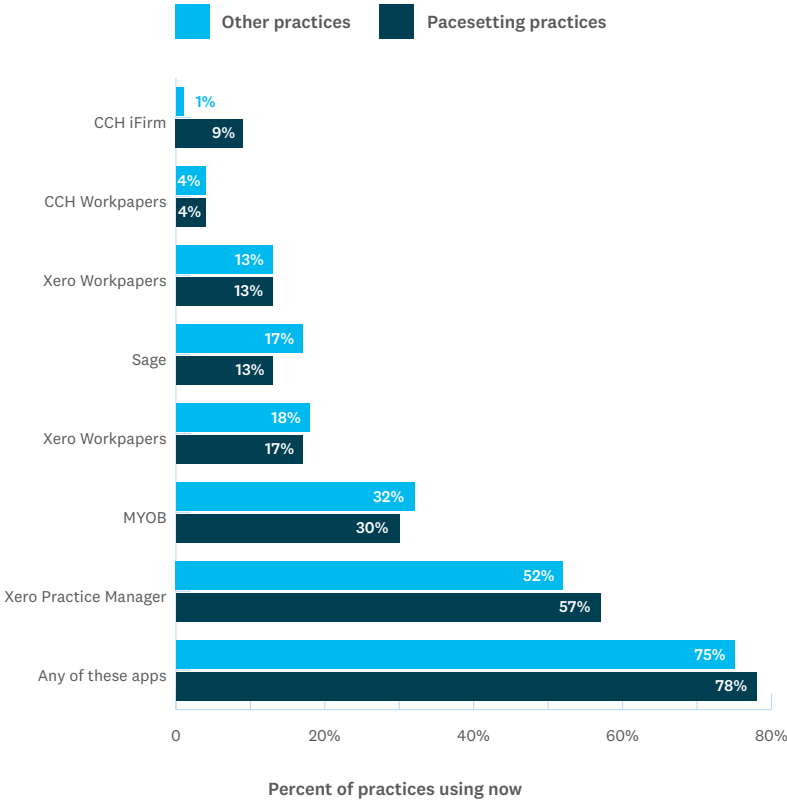


Figure 24. Practice management app usage compared to pacesetting firms

Data automation apps

The use of data automation apps by pacesetter firms is higher across all four data automation apps although other practices are not far behind in adopting technologies that deliver the significant benefits of better information with less effort. The most striking difference is pacesetters' use of Xero's Hubdoc.

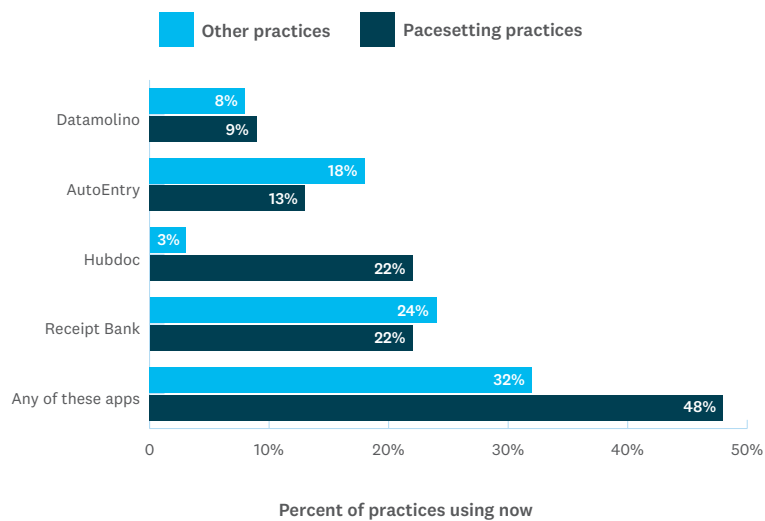


Figure 25. Data automation app usage compared to pacesetter firms

Forecasting, budgeting and reporting apps

The results here suggest that firms are in the early stages of learning and using apps for forecasting, budgeting and reporting. Interestingly, pacesetter firms lead other firms in using these types of apps and many favour Spotlight Reporting.

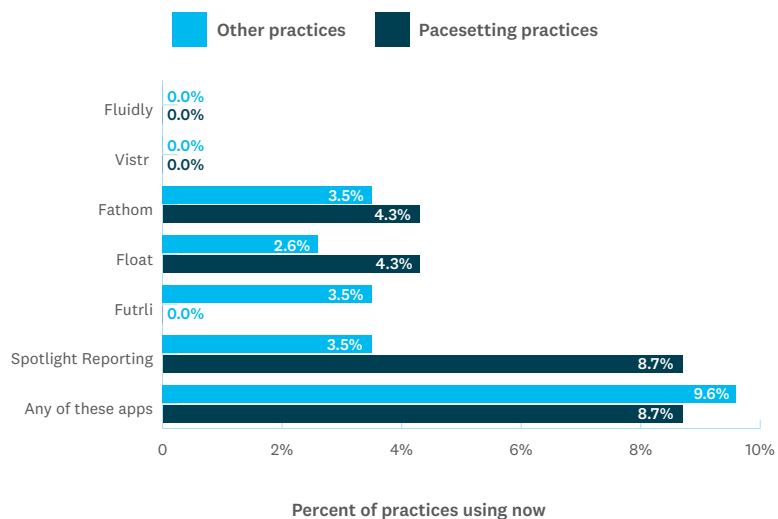


Figure 26. Forecasting, budgeting and reporting usage compared to pacesetter firms

Pacesetter behaviour in areas of interest

We often receive suggestions for additional topics to cover in our industry reports. We really appreciate the feedback and have added the following topics this year at the request of our readers.

Should accountants be explicit with clients about which accounting software to use?

To see whether pacesetting practices are doing things differently to average practices, we asked each practice to report on their approach to helping clients decide on accounting software. Figure 27 shows that pacesetting firms are much more assertive in making recommendations to clients and far less likely to simply accept the client's preference as a final decision. We've learned from conversations with accountants and bookkeepers that these upfront and hard conversations lead to superior outcomes for clients and the practice. In addition, it enables the practice to push toward higher client use of online accounting and of Xero (see figures 22 and 23). We were surprised how markedly different pacesetters are and how seemingly easy it would be for others to replicate their approach.

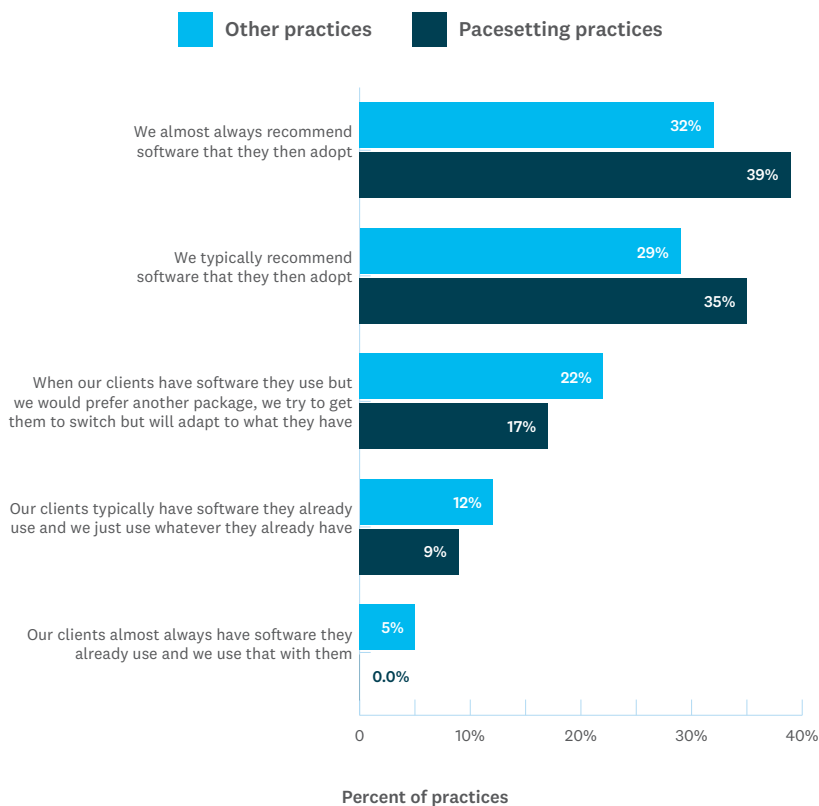


Figure 27. Approach to helping clients with accounting software decisions

Should accountants be explicit with clients about which bank to use?

The connection to banks to accounting software is particularly important to achieving high-quality information for clients with minimal effort. Banks vary considerably in the ease of access to bank transactions and most partners know which banks provide the best experience for their clients. The question we were asked is whether accountants and bookkeepers are pushing their clients to open accounts with certain banks or to switch banks to access better banking services. Figure 28 reveals that pacesetter firms are far more assertive and proactive at directing clients to better banking services. In sharp contrast, average practices simply accept their clients historical choices most of the time. It appears that the pacesetters' assertive approach is contributing to the significant efficiency advantages pacesetters hold over average firms (figure 21) and we'll study this further in future industry reports.

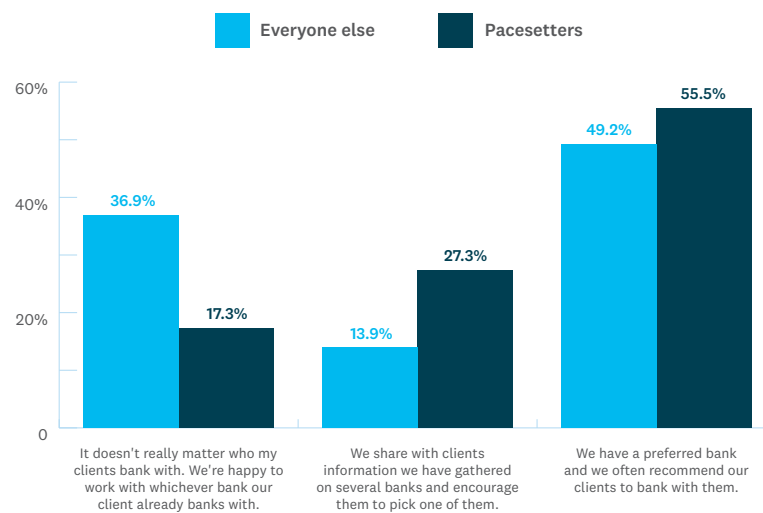


Figure 28. Approach to helping clients with bank decisions

Should accounting staff engage frequently with clients?

In our pacesetter research, we noticed a considerable difference in the way pacesetters organise their staff, push their teams to be more proactive, and engage with clients – even foregoing manager supervision of communications.

We added a question to investigate how many times during a typical business day staff members engage with clients via text, WeChat/WhatsApp, Instant Messaging, and so on. These messaging apps are increasingly the way Hong Kong business owners and their teams prefer to communicate. Figure 29 compares pacesetter and average firms. Overall, the results show more staff member engagement with clients by pacesetter firms. We can assume that the higher levels of engagement lead to better client relations and experiences and the subsequent benefits for practices. While average firms might want to replicate these staff behaviours, historical ways of working are likely to continue unaltered unless practice leaders make it clear that client engagement rules have changed and are willing to accept the risk of non-supervisor reviewed communications. We have a strong sense that unless staff behaviours change, other firms will be unable to release the many advantages that pacesetters enjoy.

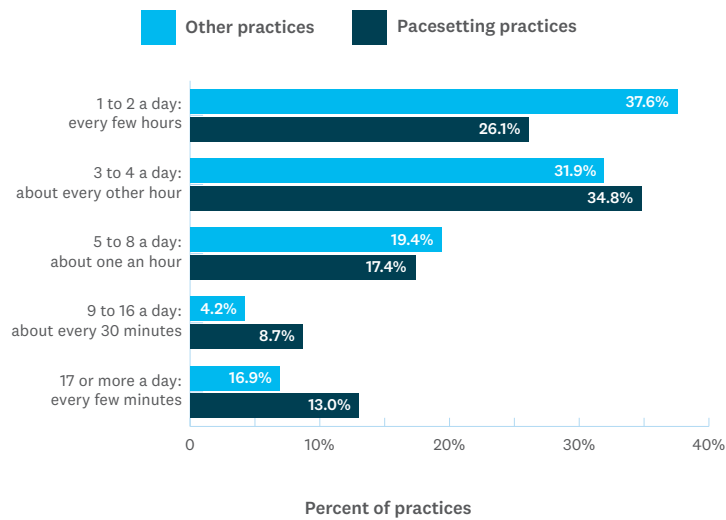


Figure 29. Client engagement levels of practice team members

Priorities for the year ahead

We believe that looking at pacesetters’ current approach and the apps they use tell only part of the story. The rest of the story can be learned by hearing what pacesetting firms are planning to do next. Figure 30 shows that pacesetting firms are highly focused on growing revenue (74% vs 47%), while other practices have a higher focus on practice efficiency (28% vs 9%).

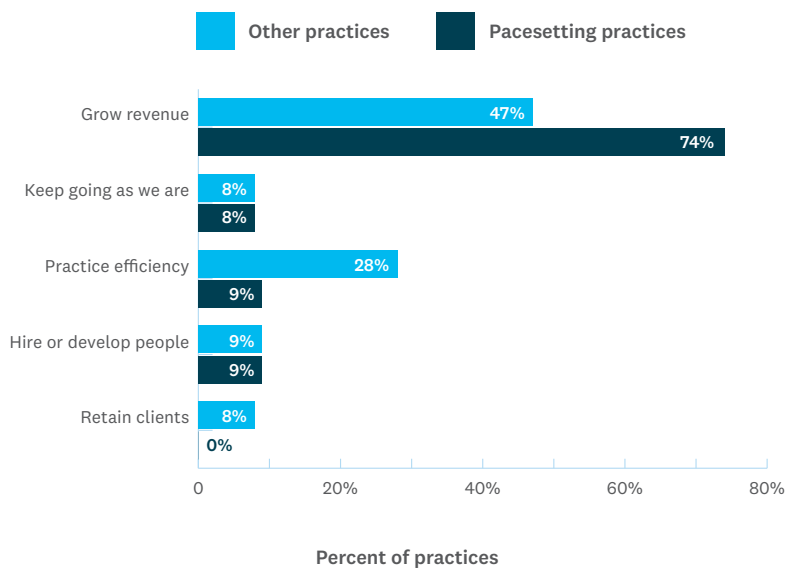


Figure 30. The firm’s most important objective for the year ahead

Investment plans to increase advisory services

We wanted to know if firms are increasing their investment of time and resources in advisory services and if they would appreciate assistance from Xero. It's little surprise that pacesetting firms are more confident they have it under control (34.8% vs 29.3%) and more eager to take on outside assistance (39.1% vs 34.8%). It's also clear that increasing investment to grow advisory services is a priority for all types of firms.

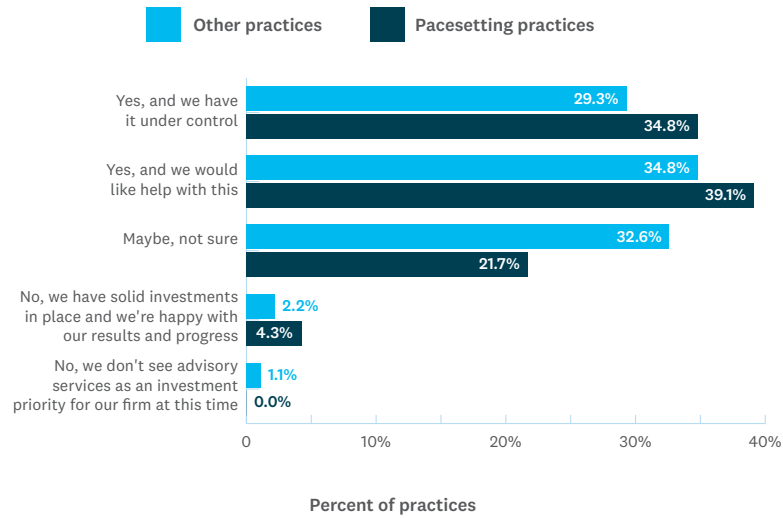


Figure 31. Investment plans to increase advisory services compared to pacesetting firms



Brian Lai, Link-Pro CPA | Hong Kong

Business development: service propositions and marketing

Sources of new clients

Figure 32 shows the sources of new clients for accounting firms this year. The largest source of new clients is new business startups (38.8%) followed by business switching firms (28.8%) and businesses who used to do their own accounting (28.2%). This reflects the reality that business owners are often surprised by the range of compliance rules and regulations required of them, and come to realise the value in getting experts in compliance to do the work more efficiently and effectively.

The 106 firms that shared their new client information gained 2,700 new clients. If we extrapolate their results to the market, the approximate total new clients in the last 12 months is 33,000, of which over 9,500 switched firms. We'll see later on in table 5 that an average client has a net present value (NPV) of approximately \$142,000 which means that over \$1.3 billion of client net present value left firms in the last 12 months as clients moved to other firms. We think this is an important reminder to practices to collect and take action on client feedback before it's too late and clients commit to working with someone else.

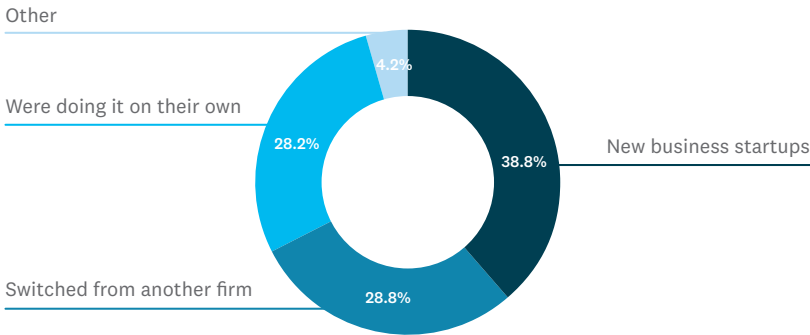


Figure 32. Sources of new clients

Overall service propositions

Service propositions

We asked participants to select the service proposition that best describes firm offers to small businesses.

Practice service proposition	Descriptions
One-stop service centre	Our firm provides a full set of services that cover virtually every business need.
Fast and effective service centre	Our firm provides great value and service to businesses that want to get the job done quickly and economically.
Specialised services	Our firm provides the highest level of expertise in a select number of important areas. We deliver exceptional service in a few areas.
Business mentor/counsellor	Our firm provides the wise, experienced advice and counselling that helps businesses navigate the best path forward for their business, now and into the future.
Tech-loving accountants	Our firm is filled with qualified accountants who are also tech geeks or front-runners.
Shared community, talent and virtual team	Our firm provides service as if we are members of their team with all the experience and benefits, and without the high costs and effort, of hiring full time employees.

Table 4. Practice service propositions

Client responses to the service propositions

Partners often ask us what small businesses are seeking in an advisor when they search for an accountant or bookkeeper. This table shows that the most popular proposition to clients was the one-stop service centre with 51% of businesses selecting this proposition across the last 12 months. On average, they were charged a rate of \$30,400 which is near the midpoint. Practices that offer this approach have the third lowest regretted client departure rate. And we estimate the net present value (NPV) of each new client is roughly \$154,000 assuming 50% gross margin and using the average discount rate in Hong Kong of 6.5%.

Best fit for the practice	Number of new clients, last 12 months	Share of total new clients, last 12 months	Annual revenue per client	Regretted loss of high value clients	Implied years the client will stay	NPV of one client at 6.5% discount rate and 50% gross margins
One-stop service centre	1,270	51%	\$30,400	5.8%	17	\$154,000
Fast and effective service centre	380	15%	\$26,800	10.7%	9	\$89,000
Specialised services	380	15%	\$28,800	3.8%	26	\$96,000
Business mentor	290	12%	\$31,800	7.2%	14	\$197,000
Tech loving accountants	150	6%	\$27,600	14.9%	7	\$76,000
Shared community, shared talent and virtual team	40	1%	\$41,000	3.0%	33	\$276,000
All propositions	2,510	100%	\$30,200	6.9%	15	\$142,000

Table 5. Client metrics by service proposition

Results for practices using different service propositions

Tech-loving accountants stand out as having the highest growth rate (22%) and very low regretted employee departures (1.3%). However, as shown in table 5, they have the lowest client net present value (NPV) as a result of the highest client turnover. This is a great reminder to consider your practice service proposition from your firm, employee, client, and financial perspectives.

Best fit for the practice	Number of firms	Percent of firms	Revenue growth in last 12 months	Percent of staff compensation increase	Percent of regretted staff departure
One-stop service centre	45	45%	7%	5.4%	11.1%
Fast and effective service centre	15	15%	11%	5.2%	19.3%
Specialised services	14	14%	19%	5.5%	7.0%
Business mentor	14	14%	9%	5.1%	5.0%
Tech loving accountants	6	6%	22%	9.7%	1.3%
Shared community, shared talent and virtual team	5	5%	16%	9.5%	33.3%
Grand Total	99	100%	11%	5.8%	11.2%

Table 6. Practice revenue growth and employee metrics by service proposition

Marketing investment by size of firm

As noted above, pacesetter firms stand out from other firms in a number of important ways. We were curious about their level of marketing investment and found that the largest pacesetters invest much more than other practices.

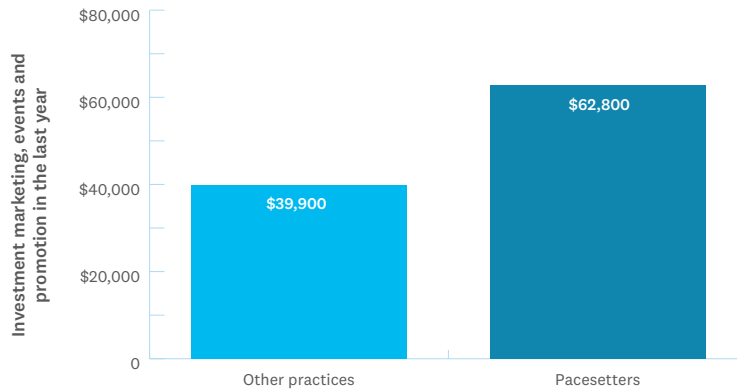


Figure 33. Marketing investment by pacesetter and other firms

Marketing investment by type of practice

The other way to compare marketing investment by pacesetters is by type of practice. We found that for repeatable and complex advisory, pacesetters are investing significantly more in marketing and business development than other practices. Interestingly, pacesetting repeatable advisory practices were greatly outspent by other types of practice. Presumably they were relying on positive word-of-mouth recommendations. However their lower spend on marketing appears to be reflected in fewer new clients as shown in table 19.

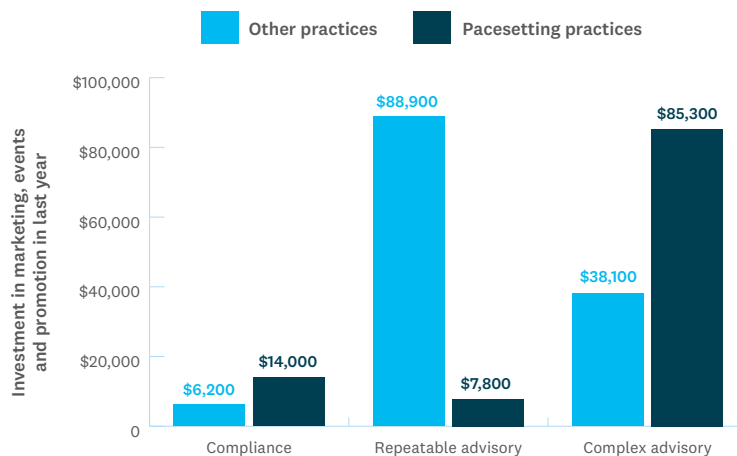


Figure 34. Marketing investment by type of practice

Dashboard Accounts Payroll Reports Contacts Adviser Settings

Singapore business Your last login: 19 Oct 2015 from Australia

Business Bank Account

306-234-12345678 MERLION

[Reconcile 33 items](#) Balance in Xero 100.00
Statement balance (17 Jul) 377,769.74

Account watchlist

Account	This month	Year to date
Accounts payable (800)	100.00	234,567.00
Accounts receivable (610)	100.00	0.00
Advertising (400)	100.00	0.00

Business Savings Account

306-234-12345678 MERLION

✓ Reconciled Statement balance (17 Jul) USD (100.00)

Invoices owed to you

[New Bill](#)

4 draft invoices	2,058.00
10 awaiting payment	18,073.95
8 overdue	14,653.95

Total cash in and out

Bills you need to pay



How Xero can help

Once you've decided that Xero is the way forward for your practice, a Xero account manager is the perfect person to help you get going. It's the job of the Xero account managers and partner consultants to help you with every aspect of the transition to Xero, and be there for you every step of the way. If you're not already a Xero partner, sign up to the Xero partner program at xero.com/partners or get in touch by emailing partnerteam@xero.com

Once you've become a Xero partner, getting yourself and your team certified is key to ensuring your practice understands Xero and how it can help your clients. Our most successful partners are the ones whose team is certified and where everyone is well prepared to provide excellent service to their clients. Many practices adopt a model where staff can dedicate a percentage of their work hours (say three, five or eight hours per month) for getting certified on Xero and learning the business apps that clients value most. This quickly becomes productive, as certified staff are much more effective when helping clients or working on Xero-related tasks in the business.

We understand that making a significant change within your practice isn't easy, which is why we offer online courses at Xero Central on migrating to Xero. Becoming a migration specialist is perfect for the person at your practice responsible for migrating your practice to Xero, and Xero Central learning is filled with guidance, resources and tools to support the switch. Of course, you need to keep your books current when you're changing software, and we have several good options to help you.

We've also documented the successes of practices moving from analogue to digital and successfully adding advisory services. These books are available on Amazon in Kindle and in printed formats.

- *The Pacesetters: The British accountancy firms reshaping their industry.*
The story of how the UK's top accounting practices used cloud accounting software to become more efficient, find more time, help more clients, and make more money – and how you can do it too.
- *The Pacesetters: Advisory – The best practice guide for accountancy firms.*
The story of how accounting and bookkeeping firms are growing from compliance to advisory by meeting the needs of their customers and employees – and how you can do it too by applying the ideas and successful methods of leading practice to your own firm.

Talk to a Xero account manager today about your 2020 and 2021 plans

We want to help you find the way forward for your firm in the coming years. For everything from getting started in the cloud to developing cutting-edge advisory services, Xero account managers and practice consultants are standing by, ready to help you create a business plan for moving your practice forward in 2020 and beyond.



Beautiful business

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