HOW THE ACCOUNTING INDUSTRY IS ABOUT TO DRAMATICALLY AND PERMANENTLY CHANGE

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Introduction

There is a rapid shift happening right now in the accounting world that has been driven by two key things. Changes in technology, and the ability to employ staff in offshore locations with comparably lower salaries than their western counterparts.

For some, the idea of sending work offshore is controversial and a betrayal to their home country. Whether you like it or not – work is disappearing overseas never to return. Just think of the call centre industry. People protested and complained bitterly (they still do) about having to talk to people in India, but did it change anything?

This whitepaper will educate you on the subject with respect to the accounting industry and the shift in labour to the Philippines. There are opportunities and threats that lay ahead, so you need to be prepared to either defend the threats or take advantage of opportunities.

Threats to accounting firms

Commoditisation of compliance services

Most business owners have their local accountant prepare year-end financial statements and tax returns. While there is some value in this, it is quite limited. The service basically keeps the business owner out of jail.

With the onset over recent years of cloud based accounting systems and other technology this process has become easier and easier for the accounting firm. Accountants often hear about value pricing certain things upward – but in the case of compliance services the price should be value priced ***downward.***

This downward price pressure creates a threat to a compliance based accounting firm. Your margins are going to be squeezed with lower prices and higher costs (salaries).

Foreign competition

Gone are the days where your biggest competitor was the firm up the road. Now, you can expect to have firms competing for your clients from all over the world. How many times have you received SPAM from an Indian outsourcing company offering cheap accounting services? I get these emails several times a week.

But it’s not just Indian firms anymore.

There are ***Australians*** set up in India; Vietnam and the Philippines who are doing the same thing. While it is still in its infancy, the rate of growth happening in this space is staggering. You need to consider how your clients will react to an Australian firm who can produce not only the basic compliance work, but also value added services too for half the price you are charging them.

What will be your strategy to answer this threat?

Cloud technology

Cloud technology is making everyone’s lives easier in the accounting world. The days of data entry are gone. Sending files and receipts back and forth in a shoebox seems almost ancient now. And the ability to turn work around quickly is at our fingertips.

How long does it take you to prepare a bank reconciliation using traditional desktop accounting software vs a cloud based product with automatic bank feeds and data rules for posting? This ease in use is making it possible for people anywhere in the world to do the accounting work for your clients.

I have personally reconciled bank accounts sitting in airports waiting for my plane.

There are also products available so receipts and invoices are scanned by a third party and made available to your accounting staff for coding and filing electronically.

Data processing has changed. Have you changed with it?

Opportunities for accounting firms

Increase your gross margin

The largest expense for any accounting firm is labour. The salaries of Australian accountants are very high (as is the cost of living in Australia) and going higher every year. I don't need to drop a bunch of statistics in here – if you own an accounting firm you already know this by looking at your P&L.

Some firms are choosing to source their labour differently.

Rather than having junior level accountants in Australia, they are employing staff in the Philippines (there are other places too, but this whitepaper will focus on the Philippines) to perform the same tasks those juniors were performing in Australia.

The following table demonstrates the comparative costs in Australian dollars between the salary of an Australian accountant and a Filipino accountant. Both are assumed to have around three years of experience and a CPA qualification. I have excluded office space and IT requirements as that will vary depending on your chosen offshore model.

	Australia (Melbourne)	Philippines (Manila)
Base Salary	AUD$ 65,000	AUD$ 10,000
Superannuation	AUD$ 6,175	
Tax Free Allowances	-	AUD$ 900
Misc. Government Contributions	-	AUD$ 500
Health Card	-	AUD$ 1,200
TOTAL	AUD$ 71, 175	AUD$ 12, 600

If you take some of the costs and replace them with the same skills in the Philippines the difference will go straight to your bottom line.

Increase your talent pool

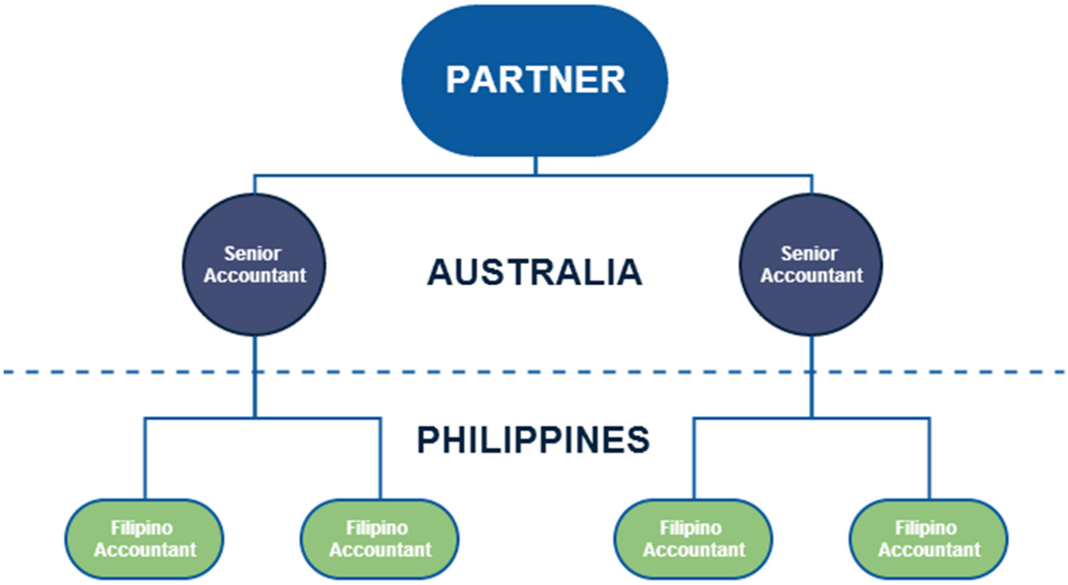
There has been a shortage of accountants, particularly in regional areas for a number of years. For those firms starved of talent, the Philippines offers a large pool of accountants to choose from. Experienced, and happy to work. Employee attitude in the Philippines is more grateful than the entitlement attitude in Australia.

Decreased turnaround time for work

Some firms (not you, right?) sit on client's work for up to several months. Clients get frustrated with the lack of response, accountants are drowning in work and generally all parties are disappointed with the process.

There are other firms who have an offshore team and are able to respond within hours (not days) to client queries, and they turn work around in days (not weeks and months). The client is happy, the accountant is happy and the owner of the firm is happy.

This is achieved due to the low relative cost of labour in the Philippines which means the firm can easily afford to put enough staff on to get the work done faster.



Common Myths

The Sweatshop

Every few weeks there is a media report about someone in a factory in a third world country who has not been looked after as an employee. Or how they are being paid $1 a day and work long hours with no chance to rest.

While there are 'sweatshops' they are not that common.

There are many places in the Philippines where staff receive treatment and benefits that Australian staff do not receive. Team building trips out of town to a beach resort are relatively common; birthday celebrations; health benefits; positive working environments among other things.

Eastwood is one of the most well-known commercial and residential developments located Metro Manila in the Philippines and is where Frontline's office is located.

I don't agree with poor treatment of staff, but I do take issue with the constant $1 a day (or pick a low number) comparisons with an attempt to put a guilt trip on you.

You can't isolate the income side without looking at the expense side as well.

The following table shows a typical cost comparison between Melbourne and Manila.

	Australia (Melbourne)	Philippines (Manila)
Meal for 2 (mid-range restaurant)	AUD$ 80.00	AUD$ 18.21
Pack of Cigarettes	AUD$ 19.00	AUD$ 1.21
Taxi 1 Hour Waiting (normal tariff)	AUD$ 50.00	AUD$ 2.91
Cinema, International Release	AUD$ 18.00	AUD$ 4.85
Average Monthly Disposable Salary	AUD$ 4,324.50	AUD$ 467.37

What are my clients going to think?

The clients want to receive good value for the money they are paying their accountant. For most clients, they simply won't care.

Some of the firms operating from the Philippines have their accountants dealing directly with their clients in Australia.

Cherry, our first accountant, met up with our clients for dinner on her trip to Australia.

It will take a massive mindset change for traditional firms. But as long as the staff are competent, and speak good English the clients have no issues interacting with the Filipino accountants.

What are my staff in Australia going to think?

This can be a little more challenging.

Some staff are going to see this as a threat to their position. And if they are staff who process work and don't add value then it could be a very real threat to their position.

There are basically two ways you can approach this with your team.

1. Redundancy
2. Growth

It is possible to eliminate poor performing staff and replace them with equivalent staff in the Philippines. It's your business, and it should be run how you see fit – not how the staff think you should run it.

Most firms however, are opting for a growth strategy. They want the staff in the Philippines to assist in the growth of the business. The staff in Australia can be elevated to interact more with clients and offer value added services.

The reality of having Filipino accountants

What work can they do?

Some example of white collar roles that are offshored to the Philippines are:

- Graphic design
- Marketing
- Telephone support
- Administration/Executive assistants
- IT
- Web design
- Data entry
- Transcription
- And of course…accounting among many others.

The accountants in the Philippines can do anything an Australian accountant can do, aside from physical meetings.

Here is a list of the tasks accountants are doing from Manila right now.

- Bookkeeping
- Debtors and creditors management
- Payroll
- Month end reconciliations and reporting
- Business Activity Statements
- Quarterly management reports
- Cashflow forecasts
- Financial statement preparation
- Income tax returns for individuals, companies and trusts
- SMSF compliance
- SMSF audit
- Deal with client queries (via email and phone)
- Company registrations
- ASIC register updates
- Deal with the Australian Tax Office on behalf of clients
- Process mail and forward to clients
- Xero setups

The list is extensive, and there are probably a few more things I have not thought of too.

What are the limitations?

Setting up a team in the Philippines is not a short term solution to your workflow issues. While you can hire great accountants who know their debits and credits, you are unlikely to find any with Australian tax experience.

You can expect to train them like any other accountant in your office. Tools such as Skype make this fairly painless. It’s not as good as being in the room with them, but it is close.

Limitations are:

- They will know nothing about Australian tax

- They are unlikely to have heard of Xero (to be trained and certified only takes a few days)
- They will not know what a Business Activity Statement is
- They are unlikely to know what Superannuation is
- They will not know what Coles; Woolworths; Bunnings is. Any supplier unique to Australia will need to be Googled. This takes time in the first couple of months while they get used to it.

Tax will be the most challenging part of raising up a competent offshore team. Getting jobs to trial balance stage is quite straight forward and only takes a few months for them to be completing bookkeeping; Business Activity Statements and year end processing and adjusting entries.

Don’t let the above limitations put you off. It’s an investment of time, but the reward is a large payoff once the team is trained.

The initial staff on your team are able to then train future employees on the basics rather than you doing everything each time you hire an additional team member.

Outsourcing/offshore models

This will be a brief overview of some of the ways you can set up a team in the Philippines. Each model carries complexities that are beyond the scope of this paper.

Internet platforms

There are several websites where contractors advertise and make available their services. Sites like Elance and Odesk are very popular. We used Odesk heavily in the early days of our business. There are some very good quality people there, but overall it’s hit and miss and a significant time investment to get right.

Independent contractors

You can take the same approach, but do it outside the internet platform and hire independent contractors directly. We did this too, and it can work well. The downside is the contractor doesn’t receive the same benefits as a regular employee. The contractors we have hired, and spoken to all prefer to be in a regular job and receiving their entitlements accordingly (for example, their equivalent of superannuation contributions).

Outsourcing company

There are companies that will take work off your hands and process it using their own team. This is prevalent in India, with some presence in Vietnam too. This can be a good solution to short term workflow issues, but there are downsides too. You may lose control of the employee and you may have no control over turnaround time.

Incorporation

Incorporating in the Philippines is nothing short of a nightmare. Trust me – we did it! This is only suitable for businesses who are going to employ 25+ team members. The ongoing compliance requirements in the Philippines can be crippling. And unless you are exporting, the setup costs run into tens, or hundreds of thousands of dollars.

Staff leasing

This is the model we think works very well for the accounting firms. You are given help to recruit the person of your choice; you get HR and payroll support; desk space; computer and internet connection. If you choose a specialist provider your employees will be working with dozens of other accountants which creates a great culture for them to work in.

Conclusion

This paper has discussed the rapid shift in labour for accounting firms to low cost countries such as the Philippines.

There are many threats and opportunities that lay ahead for the accounting profession, and the firms who move early can prosper from this shift.

Times are changing fast, and if you are like the typical accountant who gets busy and puts their head in the sand you will end up being left behind.

Let me finish with a question.

When another firm offers your clients a <u>better</u> service for <u>half</u> the cost how will you respond?

About Frontline Accounting

Frontline Accounting are at the forefront of the profession when it comes to innovative solutions. They were awarded the Most Innovative Accounting Business by the Proactive Accountants Network in 2013.

Frontline run a successful tax and accounting practice serving many Australian businesses, and also a Filipino company with over 70 employees that specialises in staff leasing for accounting firms.

Frontline is run by Mark Cottle and Jon Ryall, both Chartered Accountants with a passion for small business.

If anything in this whitepaper resonated with you as the owner of an accounting firm, feel free to drop me a line on mark@frontlineaccounting.com.au and I can share with you what all the other firms are doing in the Philippines.