



State of the industry report

2023 Australia





This report offers a snapshot of Australia's accounting and bookkeeping industries. By exploring key themes and challenges – from digitalisation and service offerings to talent shortages and economic uncertainty – the research provides insights to help you identify growth opportunities in 2023 and beyond.

About

The information and analysis included in this report is based on the responses from an online survey completed by 568 independent accountants and bookkeepers across Australia.

The survey sample was designed to reflect the market. Their responses were sourced from blended third-party market research panels, rather than from just the Xero customer database, in collaboration with Insights Exchange.

Responses were collected between 9 and 22 November 2022.

The information and commentary in this report is a guide only and should not be taken as taxation, financial or legal advice. We recommend you check with an independent expert that what you're doing is right for you and your practice.

Please note that in some tables, percentages may not add up to 100 percent due to rounding. Where percentages exceed 100 percent, respondents were able to select more than one answer.

Definitions

- **Larger practices and firms** are defined as having 11 or more employees.
- **Smaller practices and firms** are defined as having 1 to 10 employees (including themselves).
- **Small businesses** are defined as having fewer than 50 employees.

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In the face of disruption, the advisory industry is stronger than ever

Over recent years, the world of advisory has experienced a seismic shift. In the face of immense obstacles and equally great learnings, the profession is evolving. Why? Because, more than ever, accountants and bookkeepers are embracing change – and it’s propelling the industry forward.

So what led us here? The past few years have seen small businesses lean heavily on their advisors to survive the pandemic’s ripple effects. However, with heightened demand has come new challenges.

Although the peak of COVID-19 may have passed, rising inflation and cost of living pressures – amidst ongoing local and global disruption – are presenting a whole new set of obstacles. As a result, advisors aren’t waiting for the return of stability; they’re adapting – becoming stronger and more resilient at a time when uncertainty is the only sure thing.

The data and stories in the following pages of this report reveal the early stages of an industry-wide transformation. Inside, you’ll discover insights and inspiration that will help your practice evolve with the times. And it begins with understanding how the industry is changing.

In the past financial year, we’ve seen expanded offerings, like strategic consulting and software implementation, rank near traditional practice offerings (like accounting and advisory) as sought-after services. Meanwhile, larger firms are leading the way in cloud software usage, turning to apps to streamline document management and simplify client reporting to free up time.

Other big shifts are in people and culture. To combat the skills shortage, practices are prioritising education and training, and looking beyond borders to find skilled professionals. In turn, more firms are adopting hybrid or remote working alongside increasingly globalised teams.

These actions and attitudes indicate a move away from the traditional ways of doing things. Instead, accountants and bookkeepers are building towards a more strategic, digital and adaptable profession.

From implementing advanced practice tools to focusing on wellbeing to create engaged and satisfied teams, advisors are more ready and willing to tackle whatever’s around the corner. Because your next steps, no matter how small, will continue to help power the engine room of our economy – small businesses.

**Will Buckley, Country Manager
Xero Australia**

Small businesses are leaning on their advisors more, and engaging them for services beyond accounting, compliance, advisory and bookkeeping.

- The majority of practices report that some (41%) or most (38%) of their clients have leaned on them more in the past six months following the pandemic.
- Following traditional practice offerings, value-adds such as support with app and software set up (34%), HR advisory (30%), and startup mentoring (26%) are also sought-after services.



Practices using a range of apps and digital tools are more likely to have higher revenues. This suggests a greater reliance on technology for scale among growth firms.

- Almost all (98%) of firms making over \$2 million in FY22 (for accounting, bookkeeping and tax preparation) use apps for many activities. This compares to just 35% of firms with lower revenues (up to \$100,000).
- Around half of all practices making between \$500,000 to \$2 million use digital tools for tasks like client reporting and insights (49%), document management (47%), and corporate compliance (50%).



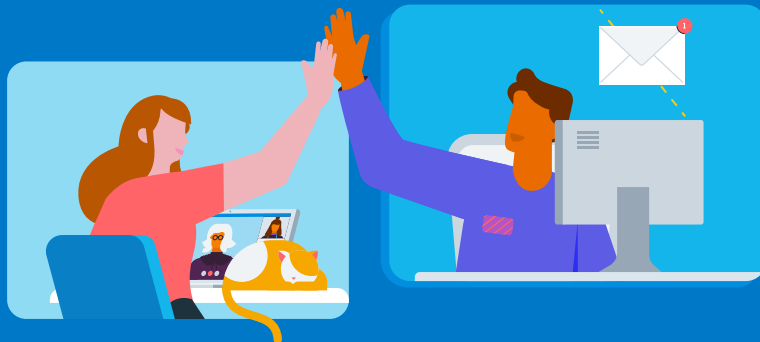
Amidst the skills shortage, some practices anticipate issues with attracting experienced team members. This has put people and culture under the spotlight for most firms.

- Over a third of firms (38%) are struggling to hire experienced team members. Meanwhile, just below one-quarter (24%) of firms are worried about retaining their existing staff.
- As a result, firms are taking steps to attract and retain top talent. For example, 40% are enticing people with employee benefits and offer training and development opportunities.
- Over the past year, many practices have experienced some change in their business structure, like a merger (36%) or establishing a new practice (44%). The opportunity to share workloads in response to staff shortages was a key motivation for the latter.



Hybrid working is the new norm, but the office still has its place in the advisory world.

- The majority (83%) of all practices have adopted some form of hybrid or remote work since the pandemic, with those asking staff to work in the office full-time now in the minority at 17%.
- Just over one-third (37%) of firms that have adopted a hybrid approach ask team members to spend *at least* one day in the office.



The looming threat of recession has advisors concerned for their clients.

- With rising inflation and growing cost of living pressures, 43% of firms expect some of their clients will be at risk of closing within the next year.
- Nearly half of all firms expect they'll need to increase service fees (45%) and raise staff wages (44%) in response to inflationary pressures.





A look under the hood of practices today

State of the industry report



➤ Growth insight:

The majority of the research participants hold a senior position at their firm.

The survey respondents were nearly all senior advisors

Over half of the research participants hold a director, partner or owner position at their firm, while another 42% are managers.

	All practices	Smaller practices	Larger practices
Manager	42%	37%	44%
Owner	26%	40%	19%
Director/Managing partner	16%	10%	20%
Partner	13%	9%	15%

Table 1: Role of survey participant

Practices were split into two groups by size: smaller practices and larger firms

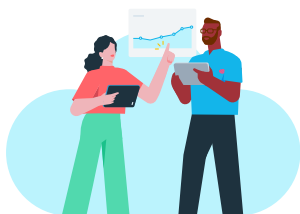
Approximately two-thirds (67%) of firms surveyed have a team of more than 11 employees.

Employees	%	Practice size
0 to 10	33%	Smaller practices 33%
11 to 50	44%	Larger practices 67%
51+	23%	

Table 2: Practices by number of employees in the firm

44%

of practices employ
11-50 people.



↗ Growth insight:

Just under one-quarter (24%) of smaller practices generated below \$100,000 in revenue in FY22, which may be because some are working part-time or as a side hustle.

Smaller practices are keeping up with revenues of larger firms

Nearly one-quarter (23%) of larger firms generated over \$2 million (for accounting, bookkeeping and tax preparation revenue) during the past financial year, followed closely by 18% of smaller practices.

Practice revenue	All practices	Smaller practices	Larger practices
\$0 to \$100,000	12%	24%	2%
\$100,001 to \$500,000	25%	28%	23%
\$500,001 to \$2,000,000	41%	25%	50%
>\$2,000,000	20%	18%	23%
Don't know	2%	4%	2%

Table 3: Accounting, bookkeeping and tax preparation revenue (sales) for practices at the end of the 2022 fiscal year (30 June 2022)

New clients are often emerging entrepreneurs

Emerging businesses made up 44% of new small business clients. These were mostly clients of larger practices. Smaller firms were more likely to gain new clients from small businesses choosing to outsource their books.

Source of new small business clients in the last 12 months	All practices	Smaller practices	Larger practices
New business startups	44%	26%	53%
Switched from another practice	28%	27%	29%
Small businesses that had been doing it on their own	27%	44%	18%

Table 4: Source of new small business clients in the last 12 months

44%

of new small business clients originated from new entrants to the market.



Growth insight:

In general, it's more common for smaller practices to specialise in a select number of services compared to their larger counterparts.

Partnerships are the preferred approach when working with clients

Nearly half (49%) of all firms consider themselves partners with their clients. By contrast, the least common persona adopted by practices was that of a specialised surgeon who focuses on a select number of services.

Practice approach to servicing clients	All practices	Smaller practices	Larger practices
Business partner: We consider ourselves part of our clients' team	49%	50%	49%
One-stop shop: Our practice offers a complete set of services that cover virtually every business need	33%	27%	36%
Specialised surgeon: Our practice offers expertise in a select number of areas	18%	23%	15%

Table 5: Practice approach to servicing clients



The list of sought-after service offerings has expanded

Beyond traditional practice offerings like accounting, compliance, advisory and bookkeeping, many firms are providing other value-add services. Just over a third (34%) are offering support with app and software set up, and a similar proportion (33%) are providing help with accounting software implementation.

Service offered	All practices	Smaller practices	Larger practices
App / software set up, configuration and support services (other than accounting)	34%	32%	35%
Implementation of accounting software for businesses	33%	28%	35%
HR advisory: Assistance with setting employee compensation, planning to add/reduce employees, or other people-centric services	30%	15%	38%
Startup mentoring, advice and networking / assistance with business development	26%	20%	33%
Corporate secretarial / company secretary services	25%	29%	23%
Capital raising / assistance moving to better interest, better terms, or better financing options	22%	13%	32%
Business performance benchmarking	20%	15%	25%
Sustainability reporting consulting	18%	7%	24%
Succession planning services	18%	15%	20%
Valuation services	18%	15%	20%
Virtual / outsourced CFO service	17%	13%	19%

Table 6: Services offered by practices that support small business clients (respondents selected multiple answers)



↗ Growth insight:

44% of larger firms say most of their clients have leaned on them more in recent times.

Clients are leaning on their advisors more since the pandemic

In the past six months, there's been a greater reliance on practices to provide more support and services to their clients.

Client expectations	All practices	Smaller practices	Larger practices
Most of our clients rely on us more for services and support	38%	29%	44%
Some of our clients rely on us more for services and support	41%	41%	41%
There has been no change in client expectations	18%	27%	13%

Table 7: Change in client expectations over the past six months, following the pandemic

Most practices are meeting compliance obligation deadlines

The majority (79%) of all practices claim to meet compliance obligation deadlines for clients without needing extensions. However, some – especially larger practices – are only just scraping through.

Management of client compliance deadlines	All practices	Smaller practices	Larger practices
We have it under control and rarely need extensions	49%	59%	45%
It's a stretch to reach due dates but we make it	30%	24%	34%
Many clients need extensions	18%	11%	21%
None of the above	3%	6%	1%

Table 8: Perceived ability to manage client compliance deadlines



Variations on fixed fee billing look to be the preferred option for practices

Practices predominantly offer the following variations on a fixed fee billing model:

53%
fixed fee plus service
45%
fixed recurring fee for bundled services

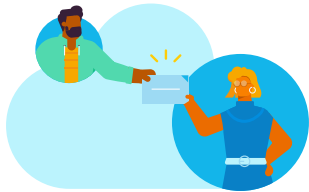
Fixed fees provide certainty for clients and more predictable revenue for practices. Larger firms were more likely to charge a fixed fee plus service, while smaller practices are more likely to bill by service or time in arrears.

60%

of larger practices were more likely to charge a fixed fee plus service.

Ways clients are billed	All practices	Smaller practices	Larger practices
Fixed fee plus service (clients are on both a fixed fee service plan and they expect to pay for additional services)	53%	40%	60%
Fixed recurring fee for bundled services (clients are on a fixed fee service plan and the agreed rate is automatically collected)	45%	30%	53%
Bill by service in advance (clients are quoted a fixed amount for the service and billed before the work is completed)	41%	30%	46%
Bill by service in arrears (clients are quoted a fixed amount for the service and billed after the work is completed)	22%	31%	16%
Bill based on time in arrears (clients are billed for the number of hours and partial hours of service provided)	11%	20%	6%

Table 9: Billing methods offered by practices (respondents selected multiple answers)



↗ Growth insight:

Key motivations for merging with another practice were to share workloads in response to staff shortages (23%), and to secure a more stable future in succession planning (20%).

Change is in the air for firms

Over the past year, the majority of firms have experienced some change in their business structure, like a merger (36%) or establishing a new practice (44%).

Activities undertaken in the last 12 months	All practices	Smaller practices	Larger practices
Recently merged with another practice	36%	16%	48%
Sold to another practice	12%	16%	10%
Established a new practice	44%	19%	58%
Went out on my own	20%	14%	23%

Table 10: Activities undertaken by practices in the last 12 months that said they did experience a change in their business structure (respondents selected multiple answers)

Shifts in practice structures could be a sign of the times

The primary reasons for establishing a new practice were to capitalise on growth opportunities in new markets (26%) and address more client needs by offering complementary services (24%).

Reasons for change in structure	Recently merged with another practice	Sold to another practice	Established a new practice	Went out on my own
Combining workforces to combat staff shortages	23%	5%	15%	5%
Complementary service offerings	17%	6%	24%	9%
Revenue challenges	18%	6%	23%	9%
Expansion into new markets	18%	5%	26%	10%
Succession planning	20%	5%	22%	8%
More growth opportunities	14%	7%	23%	10%
Better work/life balance for staff, e.g. sharing workload	13%	5%	16%	10%

Table 11: Reasons for changes in practice structure over the past 12 months (respondents selected multiple answers)



Jeannie Savage — Cloud 9 Strategic

The bookkeeper embracing innovative service offerings

In recent years, many advisors have faced the pressures of being all things to all clients around the clock. But not Jeannie Savage. Through an expanded list of service offerings and a deep reliance on both tech and her team, she's built a bespoke practice in [Cloud 9 Strategic](#) and her dream lifestyle to boot.

A few years ago, Jeannie Savage was at a local community salsa class when her dance partner inquired about what she did for a living. She said she was a bookkeeper. 'Oh,' he replied in a dull tone before asking if she enjoyed her work. Jeannie's response? "I love my job because it lets me dance, travel and do all the things that set my soul on fire."

Throughout her 13 years as a founder and CEO, Jeannie has built – by her own definition – a lifestyle practice in Cloud 9 Strategic. She explains, "Being time-rich is really important to me. My team has the ability (and empowerment) to take care of everything so that I don't need to be glued to the wheel." But don't be fooled by Jeannie's hands-off leadership approach.

Alongside other industry leaders, she's tapping into a growing client demand for expanded services, like HR advisory (something 30 percent of practices are offering today).

As a result, this is attracting ambitious businesses with huge growth potential, creating more opportunities for Jeannie to support her clients, and expand her empire along the way.

Setting client expectations from the outset

When she's not globetrotting, Jeannie's Gold Coast home doubles as an office. And this work-from-anywhere ethos extends to her team, who operate remotely from Australia and the Philippines. They manage the day-to-day operations while Jeannie covers the high-level business strategy and client engagements.

"If I can't see the potential to turn a prospective client into a raving fan, it's not the right fit. Cloud 9 Strategic has strict trading terms; we're paid upfront and charge a premium because we only offer a platinum package of standard and value-add services. Those who meet our terms are the ones who truly care about what we do," says Jeannie.

Case study: Cloud 9 Strategic



At a time when the majority (79 percent) of practices say most or some of their clients are leaning on them for more support than ever, Jeannie's setting clear expectations of the value she provides to her clients and the commitments she expects of them in return.

"There's nothing more important than keeping a promise to your client, and it all comes down to managing capacity really tightly. If we need to, we'll move to a wait list for prospective clients. I've put boundaries in place to protect and nurture our inner circle, including my team," she adds.

Empowering small businesses with digital skills

Small businesses rely on organised and timely data to make smart financial decisions – which is especially critical in uncertain times. So, a key part of how Jeannie collaborates with clients is through technology. In fact, this way of working is included in Cloud 9 Strategic's non-negotiable trading terms. She explains, "I'm not saying they have to be the best at tech, but they need to be willing to learn for us to work together successfully."

The process begins with Jeannie assessing a new client's business (and the personality types behind it) to identify any knowledge gaps. Then, she creates a training plan with clearly outlined processes on how to use software or an app in collaboration with her practice. "Even if there's some initial hesitation, we remind our clients that we're the experts; if they trust us and stick with the guide for at least three months, life will be breezy," she says.

This reliance on tech, both from a client perspective and its automation potential for Cloud 9 Strategic, has helped Jeannie focus primarily on strategic advisory. She explains, "The more time we have to listen to our clients, the better we can help them. I truly believe strategic advisory will play a big role in the future of our industry; you just have to be prepared to adapt."

With the right tech stack, in-demand service offerings, and a passion for adventure, Jeannie's paving the way for the next generation of bookkeepers who are going their own way.

Jeannie's tips for managing clients on your terms

- 1. Be innovative with your service offerings**
 To meet growing client demand, practices are getting creative with the services they provide. So it's worth considering your strategic advisory skillset and what problems you could help small businesses solve. This is where you'll generate more revenue and build client relationships that last.
- 2. Use digital tools to collaborate with clients and work smarter, not harder**
 Utilise apps where possible to do more with less, and make sure the businesses you work with are on the same page. If they're not, consider adding digital skills training to your list of offerings.
- 3. Make your trading terms work for you**
 When taking on new clients or renewing contracts with existing ones, it can be worth re-assessing your trading terms and service fees with inflationary pressures front of mind. This can be a hard transition, but it's important to remember what value you're offering clients alongside industry benchmarks to keep your practice competitive.



The new world of work and combatting the skills shortage

State of the industry report


Growth insight:

Navigating the new remote or hybrid working environment has created some issues for a third (33%) of all practices.

A tight employment market puts recruitment and culture under the spotlight

The advisory sector is currently experiencing a range of HR challenges, with finding and securing the right people considered to be the biggest issue.

Nature of HR challenges	All practices	Smaller practices	Larger practices
Hiring experienced team members	38%	34%	40%
Managing remote/hybrid team members	33%	30%	34%
Maintaining staff wellbeing	33%	30%	34%
Maintaining staff performance	28%	14%	34%
Developing and promoting employees	32%	30%	32%
Employee engagement and ensuring job satisfaction	29%	20%	34%
Onboarding and training new team members	30%	27%	32%
Workload per employee	26%	20%	29%
Retaining staff	24%	21%	24%
Hiring in general	22%	27%	20%
None of the above	10%	11%	10%

Table 12: HR challenges experienced by practices (respondents selected multiple answers)



↗ Growth insight:

Larger practices are more likely to look offshore to fill employment gaps.

Practices are taking steps to prioritise their people

Some of the key levers being pulled to entice top talent are providing employee benefits (40%) and flexible working options (35%), and offering training and development opportunities (40%).

Actions to mitigate HR challenges	All practices	Smaller practices	Larger practices
Offering employee benefits, e.g. flexible hours, gym memberships	40%	30%	44%
Providing development and training opportunities	40%	32%	43%
Offering remote or hybrid work options	35%	30%	38%
Tracking employee wellbeing, e.g. via surveys and performance apps	33%	22%	38%
Hiring and training graduates/interns	32%	26%	34%
Increasing remuneration	29%	28%	29%
Employing an offshore team or employee	26%	16%	30%
Outsourcing work, e.g. employing contractors	25%	18%	28%
Turning away new clients to minimise workloads	24%	20%	26%
Average number of measures taken	2.9	2.3	3.1

Table 13: Actions to mitigate HR challenges by practices (respondents selected multiple answers)



↗ Growth insight:

Firms that require staff to work from the office full-time are now a minority at 17%.

29%

of all practices have a mix of remote and hybrid team members.

Hybrid work is the way forward

Practices across the board have embraced the flexible working environment, with 83% of all firms adopting some level of remote or hybrid working.

The most common approach was to have a mix of remote and hybrid team members (29%), which allows a practice to tap into the benefits of both working styles.

Practice approach to remote/hybrid working	All practices	Smaller practices	Larger practices
We have a mix of remote and hybrid team members, we mandate office days for some but not all	29%	24%	30%
We ask staff to work from the office three to four days a week	26%	29%	25%
We ask staff to work from the office full-time	17%	18%	16%
We ask staff to work from the office one to two days a week	11%	7%	13%
Our team members can choose to work wherever they want	11%	9%	12%
Our team is fully remote	6%	13%	3%

Table 14: Practice approach to remote or hybrid working

Senior advisors are heading back to the office

Since the pandemic, flexible work has become widely accepted. However, the majority of managers and directors/managing partners work most of their week in the office.

Personal approach to remote/hybrid working	Owner	Manager	Director/Managing partner
I work mostly at the office (four to five days)	28%	58%	56%
I work two to three days at the office	20%	20%	26%
I work mostly at home (four to five days)	26%	17%	9%
It varies by week	7%	5%	9%
My home is my office	19%	0%	0%

Table 15: Personal approach to remote or hybrid working



Dinesh Aggarwal — Fortuna Advisory Group

The advisory all-rounder bridging the skills gap

Amidst an industry-wide skills shortage, hiring experienced team members is a challenge for over a third (38%) of all practices. Despite this, Dinesh Aggarwal, founder and managing director of Fortuna Advisory Group, has his sights set on growth. In fact, he's determined to win the war on talent, all while creating an engaged and connected global team.

Over a decade ago, Dinesh Aggarwal had the vision to create a multi-service advisory practice; a one-stop solution for small businesses to build a pathway to success. He studied the characteristics of the top 100 accounting firms in Australia, and created a strategic roadmap that would one day see Fortuna Advisory ranked among this very list. And just last year, Dinesh's dream became a reality.

He says, **"It feels phenomenal to be named as the fastest growing accounting firm of 2022."** However, in the current environment, this has come with challenges, particularly within the people and culture space. **"A few years ago when a practice wanted to expand, you would have a pool of candidates to choose from. That isn't the case anymore. Many firms are now competing in a much smaller talent market."**

The skills shortage has forced many practices, including Fortuna, to think outside the box when it comes to recruitment and managing workloads (among other HR priorities). But in recent years, Dinesh has learned exactly what it takes for an ambitious firm to stand out in a tight employment market.

Embracing flexibility to attract talent

Although hybrid ways of working have been around for many years, the pandemic became a catalyst for widespread flexibility. As a result, the majority (83 percent) of practices have adopted some form of flexible or remote work. In Fortuna's case, this transition was relatively smooth thanks to its digital foundations. Dinesh explains, "We've had to be agile because we have offices and clients all over regional Western Australia. The cloud and our online systems have been big enablers. But from a people perspective, it wasn't until recently that flexibility became the standard."



Case study: Fortuna Advisory Group

Embracing the new world of work has opened up the employment market for Fortuna. “Many people are looking for hybrid or remote options now. And because we’re open to this, we’ve seen an increase in workforce availability, with talent from our local area and beyond,” says Dinesh.

He also believes expanding the practice’s recruitment net has raised the stakes in making the right hire. Workplace culture is one of his key priorities, and with a geographically diverse team comes the risk of diluting the camaraderie he’s worked hard to build.

Dinesh has managed this by becoming more involved in recruitment and staff retention. He explains, “There’s more time invested at a senior management level in processes and decisions that would’ve previously sat with HR. Because of the skills shortage, our industry has realised that people mean everything. So hiring decisions and staff engagement strategies now come from the top.”

Outsourcing to build a global team

As well as sourcing skilled professionals from across Australia, Dinesh has expanded the Fortuna team globally. In fact, a quarter (25 percent) of firms are now looking overseas to fill employment gaps, given the challenges of recent years paired with the tight talent market.

“There’s been a big ideology shift when it comes to outsourcing. It’s no longer considered a standalone entity but part of a holistic recruitment strategy encompassing in-house, remote and global staff. This approach can unlock huge potential from a capacity and growth perspective when demand and supply balance out,” says Dinesh.

The most important consideration, however, is culture. “No matter where someone is based, they’re part of our team,” he adds, explaining, “We’ve worked with employees in the Philippines and India in the past, and found that a global perspective can offer real value to a practice’s culture if it’s implemented in the right way. Our profession still has a way to go when it comes to learning best practices, but I’m confident there’ll be greater understanding in the future.”

With his open-minded approach, Dinesh is adapting to some of the industry’s biggest challenges. His story proves that embracing change can make for a dynamic, more capable practice that moves with the times.



Dinesh’s tips to overcome the skills shortage

1.

Create a workplace culture people want to join

To attract skilled professionals, you must be able to articulate why they should join your firm. This starts from within. What benefits (like career development and flexible work) do you offer? If you haven’t considered hybrid working, now’s the time.

2.

Learn from others who are actively recruiting

As the skills shortage indicates, there’s plenty of work to go around for advisory firms. So if you’re struggling to fill roles or expand your team, get involved in industry forums or online communities and head to networking events to learn how others are actively recruiting.

3.

Consider outsourcing if you’re struggling with workloads

To learn more about outsourcing, start by talking to an employer solution company. Many outsourcing firms have sophisticated global infrastructure, and are able to connect you with quality candidates. Just be sure to consider how you’ll integrate international employees into your existing team structure before making your first hire.



Bracing for economic pressures

State of the industry report



Larger practices are nearly twice as likely to expect clients will need more support (66% versus 36% of smaller firms).

Cost of living pressures and inflation has advisors concerned for their clients

Over half (56%) of firms anticipate their clients will need more support, and 43% expect some will be at risk of closing within the next year.

Impact of economic turbulence on clients	All practices	Smaller practices	Larger practices
We expect our clients will need more support	56%	36%	66%
We expect some of our clients will be at risk of closing	43%	44%	43%
We expect some of our clients will have no choice but to close down	21%	23%	20%
We do not expect any change with our clients	14%	23%	10%

Table 16: Predicted impact of economic turbulence on clients in the next 12 months (respondents selected multiple answers)

Practice fees and wages could rise as a result of economic uncertainty

Close to half of all survey respondents indicate that rising inflation and growing cost of living pressures are likely to trigger an increase in service fees (45%) and staff wages (44%) for their practices. One-third (31%) of all firms anticipate that they'll need to reduce staff numbers, as do 27% of smaller practices.

Impact of economy on own practice	All practices	Smaller practices	Larger practices
It's likely our practice will have to increase service fees	45%	43%	47%
It's likely our practice will have to increase staff wages	44%	40%	47%
It's likely our practice will have no choice but to reduce the number of staff	31%	27%	33%
We're expecting a minimal impact – I'm not too concerned	20%	27%	17%

Table 17: Predicted impact of economic turbulence on practices over the next 12 months (respondents selected multiple answers)

31%

of all firms anticipate that they'll need to reduce staff numbers, as do 27% of smaller practices.



Dace Harris — RSM Australia

The national practice prepared for economic uncertainty

As we grapple with rising inflation and cost of living pressures, many advisors (43 percent) anticipate some of their clients will be at risk of closing in the year ahead. For Dace Harris, RSM Australia's National Head of Business Advisory, the looming threat of recession sees him focused on two things – trusted relationships and timely data. Why? To prepare his clients for whatever comes next.

When asked about his outlook on Australia's economy, Dace Harris' response is what you'd expect from a numbers man – level-headed and analytical. “No one has a crystal ball, but challenges are certainly on the horizon. Our job is to help clients make rational decisions when they're in an emotional headspace. And we do this by turning to the data.” This is the cool, calm and practical attitude that advisory demands nowadays. But it's not always easy to front.

Through recent years, Steven Cuffe – a business advisory manager and Dace's right hand at RSM – was on the front line helping entrepreneurs protect their livelihoods. But despite his best efforts to leave emotion at the door, Steven (like so many others) felt the weight of responsibility. He explains, “It was tough. But we eventually learned that in order to help others, we had to put our own lifejackets on first.”

Now, as the nation braces for more expected turbulence, over half (56 percent) of firms anticipate clients will need more support. This is why now's the time to get your practice and clients prepared for the future, which is exactly what RSM is doing.

Leveraging data to drive decision-making

Despite the unpredictability of the economic environment, the advisory profession relies on one variable: data. And with a mind for technology, Dace has always understood that numbers and automation are the source of truth through good times and bad.

He says, “Although digital tools are far more sophisticated nowadays, advisors have always relied on data – which isn't the case for many small businesses.

Case study: RSM Australia



So with uncertainty comes this heightened need to automate, pooling as much data as possible. Why? Because this gives clients the ability to make decisions based on facts rather than emotion.”

Steven goes as far as to say this is what’s helped many of his clients survive recent years. “We saw small businesses use data to pivot. For example, they realised that by moving from a brick-and-mortar store to online, they immediately had access to customers when they weren’t physically reachable,” he explains.

To recognise the value behind this kind of decision-making, Dace says every small business needs a base level understanding of data. And if they don’t have this? Their advisor should provide education support. He says, “Advisory needs to be interactive. It’s our job to provide guidance, but ultimately, the client is in charge of their own destiny. If they don’t understand what they’re looking at, they need to be educated. It’s not enough to bury your head in the sand anymore, especially in such unpredictable times.”

Putting client trust above all else

Although he might’ve convinced you otherwise, Dace’s favourite aspect of advisory isn’t numbers – it’s people. In fact, he considers managing trusted relationships the most essential part of his profession, explaining, “Communication is a learned art. However, unlike a maths equation, there’s no perfect answer or way to do things.”

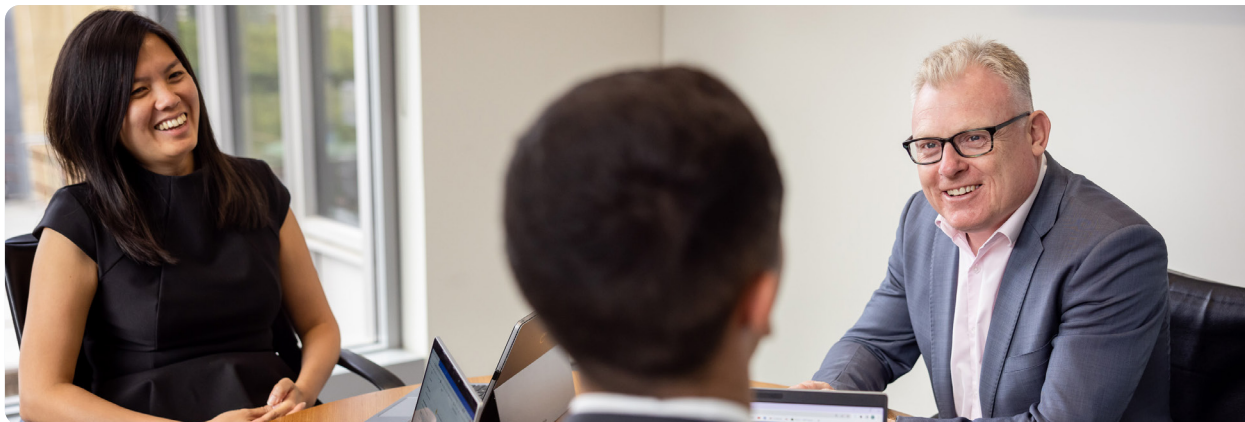
The human side of advisory can indeed be messy. From hefty debts to marriage breakdowns, Dace has seen clients go through many scenarios where emotions run high. And through it all, he’s found a way to lead with empathy and honesty.

“In my early years, I struggled with this aspect. But I learned from my mistakes and dealt with the consequences of avoiding difficult conversations,” he says, adding, “You always have to be on the same page with clients, even if it means delivering tough news. Through rapid change and disruption, minimising the expectation gap becomes even more critical. It takes time to master, but ultimately, I love this aspect of what I do.”

Alongside embracing digital innovation, Dace firmly believes that the foundations of great advisory stay the same, despite life’s twists and turns. Because in his profession, data and trust are two sides of the same coin.

Dace’s tips to prepare your practice for economic uncertainty:

- 1. Scale automation to build resilience**
 When advising clients on digital strategies, don’t forget about your own practice. Automate as much as possible to free up resources for growth and profit.
- 2. Keep a close eye on your lock-up cycle**
 To brace for disruption, review your lock-up cycle (unbilled WIP and debtors) with cash flow front of mind. This might mean reducing your billing terms from six months to three when renewing client contracts or taking on new business. Remember profit’s only real once the payment comes in.
- 3. Invest time in building trusted relationships**
 Keep the lines of communication open with your clients. Find a mentor if you’re unsure about how to approach challenging conversations or set clear expectations. Observe how they approach different situations and practice when you can. Most importantly, though, learn from your mistakes.





Tapping into digitalisation and its benefits

State of the industry report



Reaping the rewards of the right app stack

Practices with higher revenues are more likely to use a range of apps. In fact, around half of all practices making between \$500,000 to \$2 million (for accounting, bookkeeping and tax preparation revenue) use digital tools for activities related to client accounting, practice management and admin.

Two-thirds (65%) of firms with lower revenues (up to \$100,000) report that they don't use apps for any of the activities listed in table 18. This compares to just 2% of firms making over \$2 million per financial year.

65%

of firms with lower revenues of up to \$100,000 claim they don't use apps for activities like client accounting, practice management and admin.

	\$0 to \$100,000	\$100,001 to \$500,000	\$500,001 to \$2,000,000	>\$2,000,000	Prefer not to say
Client engagement	9%	28%	44%	20%	0%
Payments	2%	26%	43%	26%	3%
Client reporting and insights	4%	27%	49%	17%	3%
Document management	3%	23%	47%	26%	1%
Corporate compliance	3%	25%	50%	22%	0%
SMSF	1%	22%	54%	21%	2%
Document capture	0%	23%	46%	28%	3%
Practice reporting	5%	21%	43%	31%	0%
ATO correspondence	6%	25%	37%	28%	4%
None of these	65%	16%	4%	2%	7%

Table 18: Practice revenue by cloud software usage (respondents selected multiple answers)



Tackling practice admin with apps

Over a third (38%) of practices said document management (using apps like FYI and SuiteFiles) is one of the top activities where apps and digital tools can enhance workflows. This was closely followed by:

36%

Client reporting and insights

33%

Corporate compliance

33%

Payment

33%

Document capture

Larger practices were more likely than smaller ones to use apps and digital tools for document management, client reporting and insights, and corporate compliance. This indicates a greater reliance on technology for scale among the big players, as well as the ability to offer more services.

Uses of apps and cloud software	All practices	Smaller practices	Larger practices
Document management	38%	27%	52%
Client reporting and insights	36%	26%	48%
Corporate compliance	33%	20%	48%
Payment	33%	26%	42%
Document capture	33%	25%	43%
SMSF	23%	14%	34%
Client engagement	26%	23%	31%
Practice reporting	20%	16%	27%
ATO correspondence	18%	20%	15%
None of the above	20%	36%	1%

Table 19: Uses of cloud software within practices (respondents selected multiple answers)



Advisors have more to learn about eInvoicing and its benefits

Overall, the research suggests that some advisors hold misconceptions about the benefits and efficiencies of eInvoicing – the new way to send and receive invoices electronically directly between accounting systems via the secure Peppol Network.

Interestingly, these attitudes are unfounded, as eInvoicing is safer and more secure than standard invoicing methods. What's more, the [registration process](#) is simple and time efficient in Xero. This shows a greater need for education within the industry.

37%

of larger practices see the eInvoicing registration process as too time consuming.

Perceived barriers to onboarding clients to eInvoicing	All practices	Smaller practices	Larger practices
There needs to be a greater incentive – like government support	35%	29%	39%
The registration and user experience seem too time consuming	32%	23%	37%
I'm concerned about the security and privacy of eInvoicing	30%	21%	35%
I don't see why they need to change – their existing process works fine	29%	30%	29%
Not enough of their suppliers / customers are using it	29%	33%	26%
I don't know enough about it	15%	17%	15%

Table 20: Perceived barriers for practices when encouraging clients to register and use eInvoicing (respondents selected multiple answers)



Take your next step in 2023

Above all, the *State of the industry* report shows that advisors are in high demand, and this is likely to continue well into 2023 (and beyond). Although this brings newfound challenges such as skills shortages and managing client expectations, the future holds huge potential. So what comes next for your practice? Whether it's embracing hybrid work to attract the next generation of skilled talent or building out your app stack for a more connected firm, every step counts.

Your Xero account manager can help

Ready for 2023? We've got the small business insights, tools and practice management expertise to help you make it your best year yet. Contact your Xero account manager to learn more.



Beautiful business

Find out more:

xero.com/au/partner-programme