Understanding SME Businesses

Optimisa research - December 2014
Total of 36 SME Owners/ultimate financial decision makers using external/internal accountancy services

Mix of industry:
Makers: primary/manufacturing/construction
Sharers: transport/retail/distribution
Supporters: professional/business services
Other Services: services to private individuals

8 X F2F Depths & 28 Telephone Depths

11 x North/ North East
3 x North West
8 x Midlands
2 x Wales
3 x South West
8 x South East

Sole Traders (n=8)
Micro Businesses (n=10)
Small Businesses (n=11)
Medium Sized Businesses (n=7)

8 x Midlands
2 x Wales
3 x South West
8 x South East

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Summary of themes – current climate and role of accountants

Challenges and growth

- Although the economic climate is seen as improving, key challenges remain for SMEs that can impact on growth ambitions (maintaining business, cash flow, diversification and increased regulation)
- Three categories of ambition emerge around growth: rapid, steady and reluctant
- Indications that lack of perceived business/financial support and advice can be holding back growth (and banks are seen as still reluctant to lend)
- Nearly all have an informal, one-to-one relationship with their accountant
- Fundamentally, many SMEs are ‘satisfied’ with the service they get from accountants
- But also strong evidence of a variation in the level of service (more of an advisor vs. more of a facilitator) offered by accountants:
  - Advisor relationship tends to be more personal / facilitator more ‘business-like’
  - Potential discrepancy between those using Chartered Accountants (wider service offering) and those using Management Accountants (more limited)
  - But very little awareness (especially at the smaller end) of what certification their accountant has, given most are recommendation/WOM/inherited

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Summary of themes – perception of the accountants’ role

Role of Audit

- Experience of audits appears to be more positive than expectations
- Strong sense that ‘perception’ is based on image of a full investigation and ‘trying to catch you out’
- To some extent, concern that ‘image of audits’ may be impinging on growth ambitions – fear the hassle, expense and time taken up by them if they grew (alongside the potential fear of growth itself)

Future role of accountants

- Clear that as businesses get larger, needs become more complex
- But also greater reliance on accountants as key advisor for ‘everything’ at the sole/micro business end of the spectrum
- Not always evident that accountancy offering grows with the business
  - Can hinder growth (and even growth ambition if not being encouraged)
- Strong indication of accountancy services being ‘pigeon-holed’ / narrowed over time… unless the advice evolves with the business
  - E.g. their potential role in employment/HR, Fraud Prevention, Computer Security, Sustainability, etc., is largely overlooked – not their remit
  - In addition, not always seen as the go to source for advice on acquisition, funding or investment – and can be positioned as more about due diligence than proactive support

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The real ‘value’ is beyond the facilitator role…
but few SMEs receive this level of service

- **Partner me**: be a consultant not a bank manager
- **Grow with me**: proactively inform on services of potential opportunity
- **Pre-emptively Protect me**
- **Know me**: ensure it’s a 2 way relationship (i.e. they are listening)
- **Teach me DIY**
- **Signpost me**
- **Update me / Alert me**
- **Inform me**
- **Educate me**
- **Start me up**

So raising awareness of and utilising capabilities to offer this level of service is seen as desirable.

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Potential accountancy services can be broadly split into 3 categories: core, advisory and less natural fit

- Financial statements for bank loans
- Profitable on paper, but lack of cash in hand
- Raising Finance
- Acquisition opportunity risk assessment
- International tax implications
- Exporting goods & services
- Developing systems & internal controls for growth
- Developing green credentials
- Change in employment law
- Ill employee & replacement

‘Classic’ accountant services are likely to be already used by businesses. Any services outside of producing figures/reports are harder to imagine for most.

More likely to be advisory services that are in someway related to finance. Would consider accountants, but may use other sources of information i.e. advisors/coaches or industry bodies. Potential for growth in this area – requires specialism and promotion of services.

Unlikely to consider accountants in 1st instance. Services are seen as too ‘foreign’ for accountants, when other specialised services are available.

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Potential services offered can be mapped in terms of Importance vs. Accountant Credibility.

- **Accountants rarely/never considered**
  - Employment/HR
  - Computer security
  - Fraud prevention
  - Sustainability

- **Accountants role questioned**
  - Buying another business
  - Growing your business
  - Business funding

- **Core accountancy services**
  - Bookkeeping
  - Tax planning
  - Management accounts
  - Payroll

- **Services do not have widespread relevance**
  - Setting up a personal pension
  - Staff pensions and auto enrolment
  - Exporting

*Understanding Small Business Research, December 2014*
Accountants rarely/never come into consideration for some important business services

- Important services for the majority of businesses yet accountants not seen as credibility skilled to offer
- Slightly more awareness/openness to using accountants for these services if currently using chartered and/or larger firms

**Employment/HR**
- Seen as more of a specialist service with expertise sourced internally (medium sized companies) or through lawyers
- Jars with accountancy – people based vs. numbers based
- Expectation that accountants would need an in-depth understanding of business to contribute meaningfully

**Computer security/fraud prevention**
- More relevant in certain industries (business services)
- IT/consultancy firms first port of call – what can accountants do exactly? Seen as far removed from their expertise

**Sustainability**
- Managing financial, social and environment risks
- More relevance for medium sized companies
- Current sources include industry and government bodies – but not really on the consideration list for smaller end

- Potential for accountants to raise credibility in these areas where currently not being considered:
- Either as an advisor or to facilitate finding/sign posting further information

*Understanding Small Business Research, December 2014*
Businesses quickly identify core services required from accountants

- All primary services expected from accountants

**Payroll/bookkeeping**
- Companies either employ accountants or conduct internally
- Where capabilities internally (small and medium sized businesses)
  - Expectation that accountants would be an expensive option
  - Some desire to have control in house

**Management accounts**
- Varying levels in terms of how much accountants get involved depending upon in house capability
- However all used for final sign off of accounts

**Importance**
- Services important for accountants to maintain and offer as a core service
Some services more/less relevant depending upon size and focus of business

**Exporting**
- More relevant to larger/international/expanding businesses
- Wouldn’t necessarily consider accountants – but believe they would be a credible source
- Areas to advise on include: working in different markets/international tax advice/outsourcing

**Staff pensions auto-enrolment**
- Again more relevant the larger the company
- Support largely accessed via IFAs, though accountants can have a broad facilitator role

**Setting up personal pension**
- Some desire amongst sole traders/micro businesses for accountant to offer personal advice on pensions
  - Less time/inclination to engage an IFA
  - Particularly evident amongst ‘makers’ where core role is tradesmen (i.e. rarely in the office)

- Opportunity for accountant involvement in an advisory capacity
- Need a tailored approach to ensure relevance
Future Role of Accountants

**Micro catering service, South West**

“**You want to feel your accountant is someone you work with, not like a bank manager**”

**Background**

Had previously been with a big accountancy firm he was very unhappy with. Has since moved to a smaller firm that is able to give him the support he needs.

**Role of Accountants**

Thinks the job of an accountant is to support you as a company and make the businesses as efficient and up to date as possible. Would like to feel worthy of his accountants time and not to be charged from the moment they pick up the phone to you.

**Medium Enterprise, Consultancy, London**

“**There is such an opportunity for them to get to know your business more and offer relevant services**”

**Background**

Company changed accountants 3 times in 11 years and MD currently thinking about making another change. Feels let down by promises of added value in initial meetings that aren’t delivered.

**Future Role of Accountants**

MD believes there is a role for a more advisory role for accountants – taking more of an interest in the business + proactively contacting the business with opportunities. Reducing corporation tax is a huge priority and therefore tax planning and advising on tax efficiencies is a natural fit with an accountants role that they should be offering. Other added value services include succession planning and benchmarking/commercial assessments to give the business a competitive advantage.

*Understanding Small Business Research, December 2014*
Many do not expect their accountant to be anything but a **facilitator**

Enabling business owners to focus on development and delivery

**I just need them to...**

- **Inform me**
- **Educate me**
- **Update me and Alert me**
- ...and where possible, **Signpost me**

- Get them up to speed on their responsibilities
- Help them understand tax compliance, etc.
- Changes in regulation, legislation & compliance – in a timely fashion
- To relevant business advice beyond the accountant’s ‘normal’ remit e.g. courses, seminars, etc.

*Understanding Small Business Research, December 2014*
But on reflection, accountants being the ‘go to’ source for financial and business advice has advantages

I do wish they were more like an IFA. I think [the accountancy firm] know my business better than the financial adviser. I think it’s not such a stretch they could advise on investments, borrowing and mortgages. But at the moment that’s the financial advisor’s responsibility.

Medium Recruitment, Manchester

- Some interest in accountants offering wider advisory services – particularly where the relationship is generally strong and well-established
- In particular, there is interest in:
  - **Having one adviser for all financial matters** (i.e. not having to engage an FA too for advice on investments, borrowing, pensions, etc.)
  - **Receiving information on advisory areas they hadn’t previously considered from the accountant** (e.g. Fraud, IT security, etc.)

Understanding Small Business Research, December 2014
Advisor role: as the business grows, so do the needs

- Currently many do get some ‘DIY’ help - teaching/supporting businesses to take services in-house (e.g. payroll, VAT returns, etc.)
  - However, some indications that on-going support can be patchier (e.g. slow on updates for SAGE, etc.)

- Developing a genuinely 2-way relationship – getting to really know the business (not just the finances, but its ambitions) and listening and learning about the company’s needs
  - Can lead to more timely advice, intervention and recommendation

I asked him to help a few years ago with regards to how much we’re spending, how much is coming in, where we can cut back… I’m still waiting.

Micro Hairdresser, North West

Pre-emptively Protect me
Know me: ensure it’s a 2 way relationship (i.e. they are listening)
Teach me DIY

- Pre-emptively, proactively protecting the business (not just reactively) – ensuring they don’t get caught out. Protecting the business is seen as a key need as businesses expand.
  - Absence of this proactivity has led to leaving accountants firms

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“Be my personal accountant, as well as my business accountant”

• At a basic level, there is a desire to see accountants develop the relationship with small business owners to enable them to advise on personal as well as business finances
  – e.g. advice on expenses, investment, personal pensions

• Those relationships with a ‘personal’ feel are generally better valued and better utilised

• Risk is a more distant, ‘business-like’ relationship is easier to move on from

"Sometimes I go to him for advice outside of finance. He does all my personal pensions, and when we bought out the new business, he came to all the meetings. He was really involved with that. We’re very close with him – it’s always dinner after the meeting."

Small Travel agent, Midlands

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“Tell me what you can offer”

• As business needs become more complex, there is a desire to see accountancy services respond in an agile way to changing needs

• Especially evident amongst small and medium sized businesses

• Rarely found evidence of businesses turning down offers of advice/guidance or possible services

• Perhaps reflective of the cautious, reticent nature of some accountants…

There’s quite a few things on that list that I would never think in a million years would have to do with accountant. I think they should be having monthly meetings…they should sit down and say ‘do you want this service?’. They should be more open about the services they’ve got - I’d be chomping at the bit to sit down with them.

*Sole Trader Recruiter, Midlands*
Specialist role: providing wider advice and guidance on opportunities

• “Be more or a partner, less of a bank manager” – being a credible and desirable source for wider business advice (e.g. emerging markets, fraud prevention, etc.)

• There is evidence of inactivity due to lack of know-how; fear of using larger firms for specialist advice because too costly (is it worth the investment?)

“Grow in terms of what you offer, as we do” – don’t be out-grown. As businesses need to respond to demands to diversify, accountancy firms may need to follow suit?

• There is a desire to maintain the personal touch of a small accountancy firm that the business has grown with, but is the will mutual?

They do the usual stuff like preparing my accounts tax returns and payroll, but they also provide advice. When there are benefits or perks relevant to me, they do come and speak to me about it

Micro Transportation Retailer, London

Partner me: be a consultant not a bank manager

Grow with me: proactively inform on services of potential opportunity

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“They act like a business partner, not a bank manager”

• Evidence of the strongest growing businesses having specialist accountancy advice
  - Personal interest in the business area
  - Investment advice at opportune moment
  - Advising and signposting to trade in emerging markets

• Key was these services being offered without the business prompting…

Background
Grown gradually over past 10 years. Previously had relationship with a large national accountancy firm, but felt they weren’t getting the service they needed (not single point of contact, slow to offer advice, “we just felt like a number to them”)

Services offered
In last couple of years, their accountant has been involved across a wide range of services:

Facilitator role: VAT Returns, Tax compliance (personal and business); audit

Advisor role: redundancy strategy, sale of land, switching bank (negotiating terms), looked at fraud protection, possible acquisition opportunities

“They’re brilliant. Small, local and chartered. They’re my consultant, basically. They’re so flexible.”

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The Specialist Role: Quotes

“He does everything really. Personal vs. business expenses, we’ve started talking about my exit plan. He’s helped write a letter to send to bad payers without upsetting them – a template if you like. He did it for free, didn’t charge me. He also does the personal bit. When we play golf he’ll tell be about investments too - stocks and shares opportunities... so he provides personal, business and investment advice. We draw the line at legal stuff, I get that from another friend, a solicitor.

Sole Manufacturer, Wales

“...It would be amazing if they could just be a bit more helpful beyond the standard advice and auditing. I was thinking it’d be great not to have an IFA and an accountant. They accountant knows us well, but he just won’t advise on certain things, like investments, borrowing, that kind of thing. In contrast, the IFA doesn’t know us that well, really. It’d make my life easier if I could talk to one person and I’d prefer it to be the accountant.

Recruitment Agency, Manchester

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Going forward… future areas to consider

Raising awareness of what they can offer

- Lack of clarity about the ‘possibilities’ – if they’re qualified chartered accountants, tell SMEs what they can offer
- If they’re management or certified Chartered, make them aware of other relevant support and advice services

Optimising the facilitator role

- Ensuring services move beyond start-up, informing, educating (to a degree) and general updates
- Timely alerts are a high priority
- More could be done to ensure consistent and relevant signposting to relevant advice/guidance for businesses

Leveraging their advisor capabilities

- Enabling SMEs to look after themselves (e.g. training and updating on SAGE, etc.)
- Being more proactive in the relationship:
  - Creating a natural 2 way dialogue, listening and prompting
  - Pre-emptively protecting their clients

Delighting with specialist support

- Acting more like a partner… not limiting what they can provide / allowing themselves to be pigeon-holed
- Proactively suggesting services of potential interest to encourage businesses to grow…
  - Being a credible ‘one stop shop’ for advice and guidance

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A world leader of the accountancy and finance profession