

The image shows the M-Files logo in white text on a blue background. The logo consists of the text "M-Files" followed by a registered trademark symbol and a diamond-shaped icon. The background is a solid blue color with a vertical cyan stripe on the left side. There are also some white dots and a faint diamond shape scattered across the blue area.

M-Files



How Accounting Firms are Taking Advantage of
Digital Disruption to Drive Growth
through Efficiency



State of the Accounting Services Industry

The Professional Services sector — including accounting — **is a \$250 billion industry**. It's an immense industry and it's growing. But it's about to be disrupted.

According to IBISWorld, "The [Professional Services] industry is in the mature stage of its life cycle. The industry is characterized by growth in line with the overall economy, an increasing number of industry players, and technological change based on improving efficiency rather than developing entirely new services."

There's an issue though. Despite its maturity, the sector is vulnerable in its susceptibility to disruption.

An industry becomes vulnerable to disruption when it becomes deep-rooted in the same, age-old solutions and financial structures. Here are the three challenges accounting firm stakeholders want to solve amid heavy disruption:

Accounting Services' value proposition:

Expertise: *Hire us because we are smart*

Experience: *Hire us because we have been there*

Efficiency: *Hire us because we can get it done quickly and effectively*

Revenue of Accounting firms in the United States*

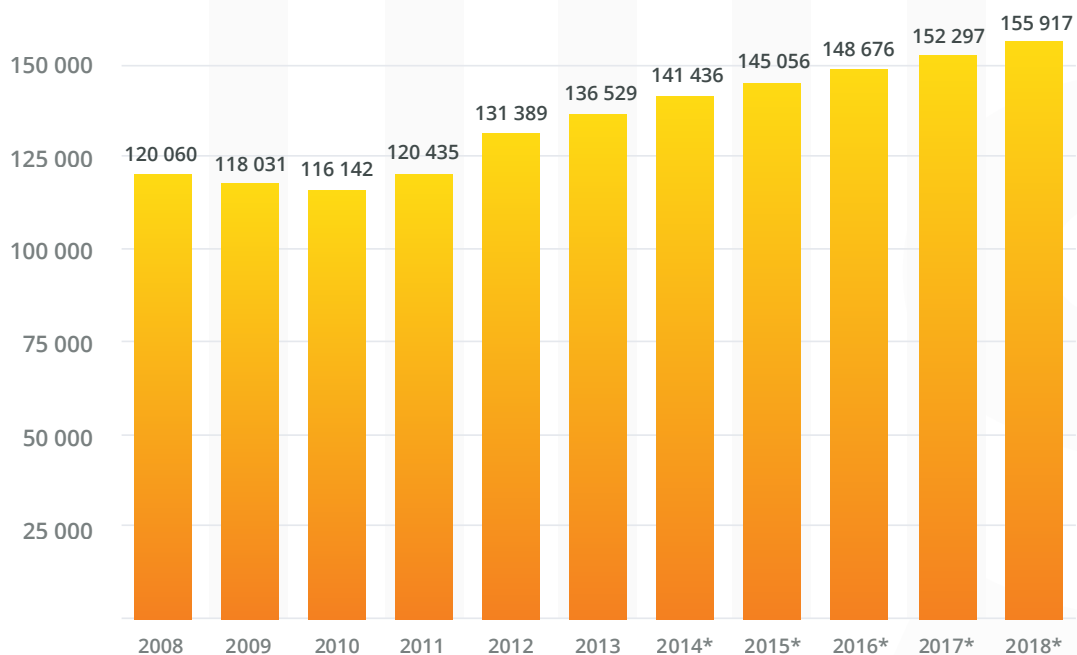


Fig. 1 - Revenue of accounting, tax preparation, bookkeeping, and payroll services (NAICS 5412) in the United States from 2008 to 2018 (in million U.S. dollars). Source: Statista



ACCOUNTING

While many firms are a business unit of larger consultancy groups, for the purpose of this whitepaper, this subsector of professional services manages a myriad of functions, including:

- Tax planning and preparation
- Operational bookkeeping and payroll processing
- Business development, budget activity and valuation
- Compliance and audit activity associated with governing bodies, like the SEC, for larger public companies

At the core, accounting firms sell knowledge and expertise to support business of all sizes and in all sectors. Or as is often expressed, accounting and financial services firms sell no products, yet their

services are so valuable to the health of their clients, they charge sizable premiums. In fact, as seen in Figure 1, revenue of accounting services in the United States has been increasing steadily for the last ten years. Knowledge-sharing is at the heart of accounting services companies, and by extension their expertise in handling complex tax situations and steering clients down a pathway of financial health. Businesses cannot know everything and therefore, rely on specialists with practical experience to guide and support their business.

Accounting Today reports a total of about 45,000 accounting firms in the USA alone. The industry is dominated by large conglomerates — specifically The Big 4 — yet there are plenty of smaller and diverse companies.



“Accounting firms have started looking at how to network with each other and their clients, because they are having business relationships beyond their marketplaces.”

- Dave Burkin, CIO - Horne LLP

4 Major Trends in the Accounting Services Industry

Sweeping disruption of the accounting industry is on the horizon. Massive technological change and shifting consumer trends demand a new methodology for how the industry creates value for clients.

Shifting Consumer Demands

Customers have changed their expectations for professional services. The interaction with the client is far more collaborative and transparent than in previous years, with a greater emphasis on a self-service experience where the client can find the answers they need. That's not to say that companies don't desire a close relationship with their accounting partner, but they want access to key information when they need it.

Clients also want an accounting firm that is more forward-thinking in recommending strategies rather than one that simply intervenes when challenges emerge. Accountex found that 72% of small business owners have changed their accounting firms because the firm did not give proactive advice, only reactive service.

Digitalization

Technology has transformed how accounting firms and their customers interact. Channels, business models, and revenue streams are being transformed by apps, cloud computing, machine learning, and on-demand digital services. Executives are being forced to turn to digital transformation to stay competitive. The pace of change is rapid and intense. Research by Xero has found that accounting and bookkeeping firms that are all in with the cloud see higher growth rates than firms that are not *all in*.

Globalization

Globalization is changing the face of accounting all over the world. With this change comes an unavoidable set of challenges that for accounting professionals worldwide. More and more, accounting firms are conscientiously moving towards the mindset where they think globally and act locally.

4
TRENDS



One example of globalized partnering among firms: Sarbanes-Oxley enforces that accounting firms work together, since the same company cannot do accounting and auditing for the same customer. Mid-tier players have found new business through this regulation by working alongside larger players.

Xero Vice President Amy Vetter alluded to how globalization is upending the accounting industry in a recent keynote: “Accounting firms have started looking at how to network with each other and their clients, because they are having business relationships beyond their marketplaces.” Vetter continues, “The people who are willing to do this will eventually – and can – take your customers, because you’re not going to be ready.”

Changing Workforce

Nearly 75% of Certified Public Accountants will reach retirement age by 2023, according to the AICPA, which means that the industry will see the ushering in of a

new guard of youth. With the advent of this young, agile generation in the workforce, expectations have changed, challenging the traditional models of working in the accounting industry, namely the billable-hour and hierarchical models.

With this change, workers are increasingly demanding:

- More flexibility in how they work, like remote capabilities and digital workplaces
- Higher value task work where new workers can apply their top-level skills
- Increased mobility within the organization, challenging hierarchical structures

These changes are just the beginning as digital natives make their way into the workplace — people that can’t even fathom a world before smartphones and an always-connected workplace.

CHANGE





Digital Business Technology is Disrupting Accounting Services Firms

Professional services firms, in general, are undergoing an unprecedented transformation, often referred to as a digital disruption. As technology has advanced, customer's needs have evolved, and new players are emerging with services and products that are more simple, convenient and affordable.

The next twenty years will see massive change in how accounting firms do business. Throw away the ticker-tape calculator and paper ledger your grandfather used to use for his accounting. New technology has had a tremendous impact on accounting firms. Obviously, constituents of this sector are reaping the rewards of a robust technology stack in their digital transformations — everything from cloud accounting software to client portals to information management solutions and everything in between.

Automation

Among other drivers, fixed price agreements are driving automation needs, as companies look to become more efficient with less overhead. Accounting firms that embrace data entry automation and other automated work become more agile in eliminating manual, repetitive, error-prone processes.

In fact, 55% of C-level executives in finance and accounting expect the development of intelligent automated accounting systems to have the greatest impact over the next 3 to 10 years, according to a report by the Association of Chartered Certified Accountants.

In terms of project-based engagements, client-facing project automation is driving new business models, allowing accounting firms to focus less on poring through data and more on strategic guidance.

Artificial Intelligence (AI) and Machine Learning

AI and machine learning capabilities will impact the actual work in a major way. For example, the processing of tax returns becomes far more efficient, as raw data becomes easily analyzed with the assistance of AI. These technologies are effectively shifting routine tasks to automated processes. In a document management context, AI can examine large sets of documents and extract the most meaningful data points to be included in the metadata, which makes classifying them a breeze — not to mention making them more searchable and easily-analyzed.

Audits will also be affected. The old “sampling” method will sink into obsolescence as data can be ingested and catalogued in totality with advanced computing power. The idea of a continual, real-time audit is not so far away. But the human element won't disappear completely.

The challenge for accounting companies is how to manage the change. Disruption will be seen as a hindrance to fringe players and an opportunity for those who embrace the change. It's by embracing the change that established players will maintain market position and niche players and freelancers can achieve dramatic growth.

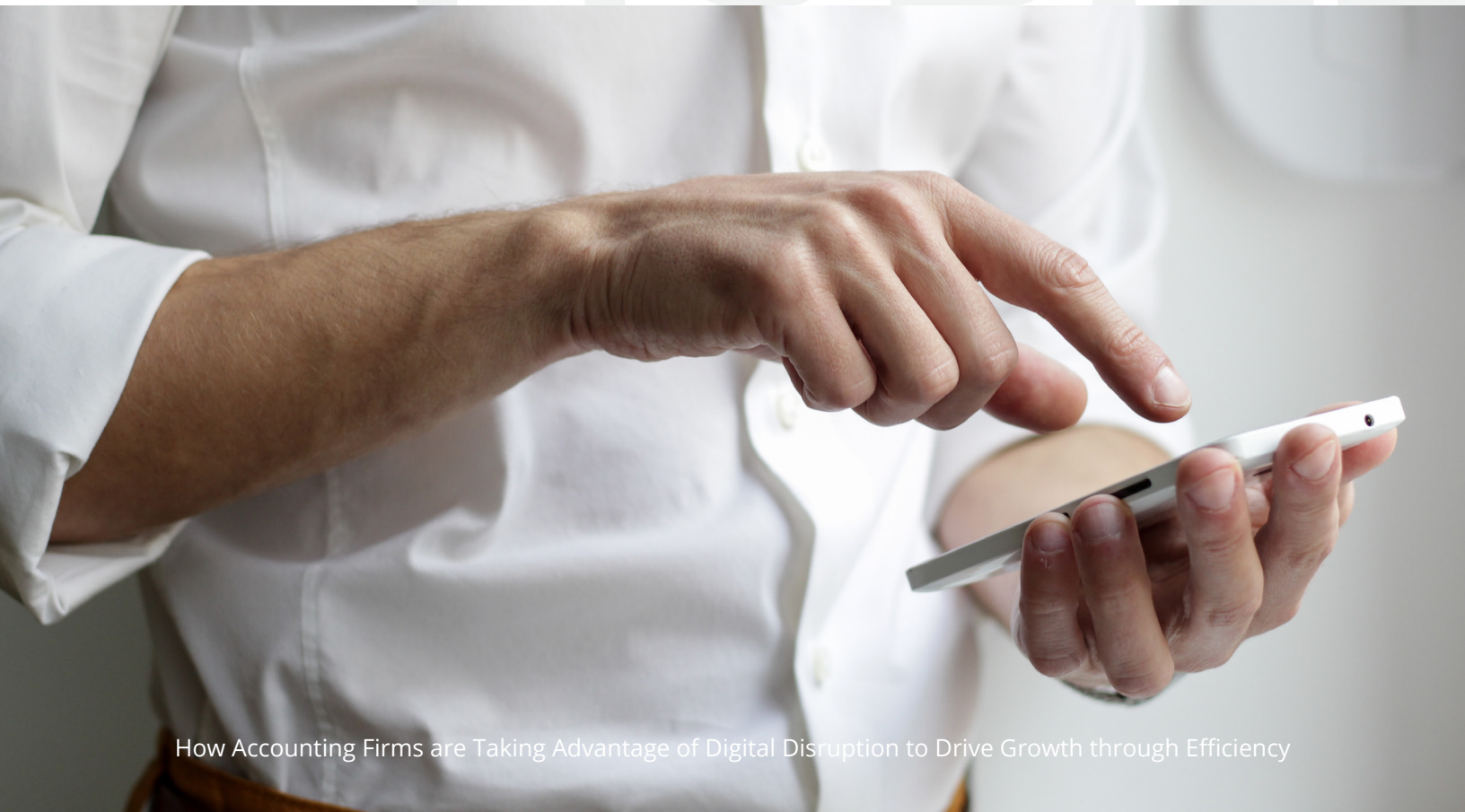
Mobile Capabilities

The ability for accounting firms to communicate with their clients and manage critical information anywhere and from any device has become an integral part of digital business in this sector. Currently, 66% of professionals in the financial services industry reported that it is challenging and time-consuming to find information they need to do their job on a mobile device, according to the 2019 Intelligent Information Management Benchmark Report.

There was a time when legacy bookkeeping firms managed their clients' affairs in bulky paper ledgers. Then, with the advent of the computer, that function moved onto spreadsheets and calculations. The next step in this evolution is the ability to communicate with clients, deliver information and access information from anywhere in the world.

In total, digital disruption in the accounting services field has been incredibly positive leading to an overall business transformation from recordkeeping and simple analysis to strategic financial consulting — thus, making these firms far more valuable to their client base.

GO
MOBILE





ABOUT M-FILES

M-Files provides a next-generation intelligent information management platform that improves business performance by helping people find and use information more effectively. Unlike traditional enterprise content management (ECM) systems or content services platforms, M-Files unifies systems, data and content across the organization without disturbing existing systems and processes or requiring data migration. Using artificial intelligence (AI) technologies in its unique Intelligent Metadata Layer, M-Files breaks down silos by delivering an in-context experience for accessing and leveraging information that resides in any system and repository, including network folders, SharePoint, file sharing services, ECM systems, CRM, ERP and other business systems and repositories. Thousands of organizations in more than 100 countries use M-Files for managing their business information and processes, including NBC Universal, OMV, Rovio, SAS Institute and thyssenkrupp.

For more information, visit www.m-files.com.

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