Technology: My Partners Just Don't Get It
by Tom C. Davis, CPA

I was recently talking with a technology partner at a large accounting firm who was expressing his concern about the future of his firm's technology commitment. He had several partners that were retiring over the next few years. His problem was that these partners were "friends of technology", meaning they had supported investments in tools and new process that had benefited the firm. He was very concerned that some of the younger partners "just didn't get it" and did not want to spend the money or the effort to implement new applications and technology processes.

At first glance, this is an unusual situation. The younger partners would be perceived as being users of technology tools and more prone to embrace technology as a means to improve efficiency and effectiveness. There are several facets to this paradox that have to be understood.

The Bottom Line

Primarily, this is all about money. The most significant resource in accounting firms, people, is getting more scarce, and is skyrocketing in cost. This trend is expected to accelerate in the next 18 months. While many firms have been able to pass along cost increase in the form of higher per hour billing rates, this action typically lags behind the increases. There is also a feeling that clients will resist substantial increases in the charges for traditional and recurring services.

So, for the first time in many partner's careers, they face the prospect of reduced partner compensation. Since the perception is that they cannot raise process significantly, and they do not have the resources to sell more services (even though there is plenty of opportunity to do this), the next route is to "save ourselves to prosperity": cut or delay expenditures. Since technology expenditures are significant (at least 10-15% of the firm's revenues, if tech expenses could be accurately accounted for), they do make an attractive target.

Perhaps one of the most significant roadblocks to on-going technology expenditures is that it is hard to identify the benefits from a specific expenditure. There is very little argument that technology has been beneficial as far as improving efficiency. However, for many firms, this technology efficiency often does not provide bottom-line profits.

First of all, most of the benefits you get from using technology are "efficiency related" and are "incremental". Many younger partners did not get to experience the big efficiency boost many "older' partners enjoyed when their firms moved from using service bureaus to in-house / on screen preparation of tax returns. Most of us saw immediate improvements in realization of more than 30%. Since then, there have been very few examples of gains of this magnitude. Typically, the gain will be incremental or will only impact a small portion of the services provided by a firm. If the benefits are small and hard to see, it is difficult to account for them.

Another reason for the lack of realized dollar benefits is because firms are still billing by the hour. If hours decline (efficiency improves) for a repetitive service, you will typically bill the same amount (or increase the fee slightly). However, it is very typical for the billing decision to be made based on last year's fee and the amount of hours that were spent, without the complete picture of what was actually done for the client.

For example, the firm made changes to its on screen preparation and review processes. The tax return required less time to prepare but it included two new rental properties and an additional K-1. If this year's fee was based solely on the time it took and the amount billed last year, there would be little or no change in the amount billed, even though the return was more complex. So, in times of increasing technology efficiency, the benefits have a way of hiding new and additional services provided to the client.

What To Do?

Making a decision to acquire new technology tools involves many steps. One very important aspect of this decision process is determining the cost and benefits of implementing the new technology. Strangely enough, accountants are really no better at performing this cost/benefit analysis than their clients are.

The cost side of the analysis breaks down into two elements. Let's call the first cost element "hard costs". These costs are the resources that will be expended for hardware, software and infrastructure. Hard costs are not too hard to project, although they will "evolve" over the course of detailing out the specifics of the project. In most instances, the final hard costs will be very different from those projected in the initial stages of the planning process.

The second cost element is much more difficult to project. This is the cost of staff and management time spent planning, learning, and implementing the new tools and processes. They include specific time expended for the project, as well as time and other costs (emotional) spent dealing with the disruption caused by the new technology tools and processes. This type of cost is very seldom even included in the cost analysis performed by accountants.

On the benefits side of the equation, things really get dismal. In most cases, there are no value estimates as to the benefits expected from new tools and processes. This lack of benefits projection is one of the most frequent reasons technology projects are viewed as not being successful. Without a benefits projection, it is almost impossible to gauge the success and value of the project.

Here is the point that most firms miss completely. Benefits represent "opportunity costs": the cost of not doing something. Opportunity costs are usually the highest cost in the entire equation. This is the money firms are leaving on the table by not taking advantage of a new tool process.

There are several reasons for this absence of benefit projection. First of all, it is just plain hard to determine the dollar amount of benefits the firm will actually get from adding new technology. In most cases, technology tools mean better efficiency and in many cases, more efficiency does not mean more dollars to the bottom line. Many firms are

still in the business of selling hours. Since hours are fixed (except by adding more staff), being more efficient often means doing more work for the same amount of resource. In the short run, fees will increase with efficiency, but often these gains erode as client service needs increase. We end up providing more service for the same dollars.

Another reason projecting benefits from technology changes is difficult, is that benefits often do not come as expected. For example, adopting a new workpaper tool or approach that produces final quality financial statements will produce only minimal benefits in most firms because the impact is to reduce the amount of clerical time spent actually producing the financial statement. However, if the firm implements new workpaper software and changes its formatting requirements and production processes to standardize and simplify statements, benefits are very substantial. It usually takes both new tools and changes in traditional firm processes to get benefits.

There is a way to simplify the benefits/opportunity cost analysis problem. This is to calculate some minimum performance improvements needed to recover hard and soft costs. Here's how this works:

First of all, the components of this calculation:

Project costs	These are the projected hard and soft costs.
Recovery period	Set a reasonable recovery period. Do not go longer than three years. A two-year recovery period is appropriate in most instances, given the speed of technology change.
Profit multiple	To be justified, the project must make money, not break-even. Use at least a 300% multiple. Projects that meet this criteria will be profitable enough for the firm to expend the resources and efforts needed to make them successful. This high-profit requirement will also provide a safety net. Technology projects that only generate half the expected results will be beneficial to the firm.
Unit measure	This calculation component makes the answer meaningful and easily understood. For most analysis, average firm billing rate per hour is the unit of measure to use.
Result	The answer will be the number of hours that must be achieved, per year, to justify the project.

Here is the formula to use:

((Cost/Recovery period)*Profit multiple)/Dollars Per Unit = Efficiency savings needed (in hours)

For example, a $50,000 technology project with a two-year life performed at a 30-person firm with a $100 per hour average billing rate would require a 750-hour efficiency savings. To break it down further, if the project generates 28 minutes of savings per firm

member, per week, the firm will realize a 300% return over the two-year life of the technology project.

With this approach, it is easy to evaluate the "reasonableness" of getting the required hours savings, without bogging down with specific savings per capability. It allows the users of this information to make their decisions based on their own perceptions of the values of the new tool.

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