Three ways technology impacts your firm's profitability

WHITE PAPER

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Is your firm as profitable as it could be? That's a question you must ask yourself as advancements in technology continue to raise the stakes for tax and accounting firms.

In our competitive marketplace, you cannot afford to sit on the sidelines, especially when it comes to technology adoption. Your ability to efficiently use technology such as automation, cloud-based solutions, and artificial intelligence is essential to driving efficiencies, meeting marketplace demands, and mitigating risk. Without the right tools and resources in place, firms face an increased threat of profit erosion.

This tech-related pressure has not gone unnoticed, as evidenced by a Robert Half survey, which found that keeping pace with changing technology is one of the top two greatest pressure points impacting accounting and finance teams – the other being the need to meet regulatory compliance mandates.[1]

To help forward-thinking firms succeed, this white paper explores three ways technology impacts your firm's profitability.

1. Drive efficiencies through technology investment

Time is money. Bottlenecks in your firm's workflow negatively impact productivity and time spent on tasks, quality of services, and ultimately profitability. In fact, your firm could be losing 20 percent to 30 percent in revenue each year due to inefficiencies.[2]

That's why leveraging the right technology to drive efficiencies and streamline workflows is essential.

Faced with increased competition and evolving client demands, you must eliminate the bottlenecks and consider ways to better serve clients – in real-time – and deliver higher-margin, high-value advisory services that extend well beyond compliance.

"We're entering into an era of customer experience that's really unparalleled, thanks to the likes of the Amazons of the world and others that are redefining the game," said Corey Greene, customer proposition strategy lead at Thomson Reuters Tax and Accounting.[3]

The question then becomes, "How? How are firms going to unlock the extra time needed to meet the demands of today's market?" For many firms, this starts with finding ways to significantly reduce time-consuming, non-billable work.

"The only way to reduce non-billable work, without jeopardizing quality, is for firms to look at their technology stack to determine which new technologies they can leverage to help shrink the work that is all cost and no upside," said Jordan Kleinsmith, director of innovation at Thomson Reuters Tax and Accounting.[4]

Utilizing integrated systems that include links directly to tax compliance software, document management, relevant tax research and the like enables firms to deliver the unparalleled service and unprecedented productivity needed to better compete and achieve greater profitability. Let's take a closer look at some of the ways technology integration can drive efficiency.

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1 Finance Under Pressure. Robert Half, 25 May 2019,
www.roberthalf.com/blog/management-tips/finance-under-pressure

2 Candito, Nick. How Inefficient Processes Are Hurting Your Company. 8 Dec. 2016,
www.entrepreneur.com/article/286084

3 Greene, Corey, phone interview, March 25, 2020

4 Kleinsmith, Jordan, phone interview, March 25, 2020

Easy Data Sharing

Leveraging a robust, integrated workflow system with powerful data sharing capabilities enables you to break down data silos, boost productivity, and save countless hours – even during the busiest of tax seasons.

This means, for example, you won't waste time linking 1120S, 1065 or 1041 returns to the related 1040 returns. Plus, when a 1040 client that has multiple pass-through returns moves, you will only have to change his or her address once as the tax software will push that new address into all other returns. Each time you enter the TIN for an employer or employee, the most current data from the client database is pulled in automatically.

Seamless Integration

Seamless integration enables your firm to increase margins and eliminate transcription errors by shaving off unnecessary data re-entry.

With the right tools in place, you can, for instance, automatically navigate from the tax return to relevant tax research and guidance; easily integrate paper source documents into an automated tax workflow using optical character recognition (OCR) technology, and transmit data from those documents into an integrated tax software solution; and efficiently manage and track the firm's projects and tasks with an integrated practice management system that eliminates clutter and centralizes all of the day-to-day processes. This enables you to achieve maximum productivity and profitability.

Dynamic Diagnostics

Leveraging the right integrated tax solution can give you an instant preparation checklist to start each year that shows all fields that had entries for clients in the prior year's return, but don't yet have an entry for the current year.

There's no doubt that data collection can be a time-consuming challenge so consider a solution that can also flag additional missing items and send the client a reminder of what they still need to provide.

Improved Business Continuity

Bid adieu to the days when staff had to exit the system in the middle of busy season to allow updates to flow through. Save time, and ultimately drive profitability, by implementing a solution that can update on its own.

What does this mean? You can take your solution to the next level by partnering with a solution provider that hosts the software on its secure data centers. Hosted software applications operate exactly as if they were installed locally, but the solution provider does all the work of installing and configuring each new release, pushing through all software updates, and backing up firm data. This reduces downtime, helping you be as productive and profitable as possible.

Leveraging the cloud also helps ensure business continuity – even in the event of a natural disaster, cyberattack, or a global event like the COVID-19 pandemic – and provides staff with access anytime and anywhere.

These are, of course, just a few ways in which an integrated system can help you drive efficiencies and prevent money being wasted on time-consuming tasks and non-billable work.

Unlock the power of AI

It is also important not to underestimate the impact artificial intelligence (AI) and machine learning (ML) can have on overall firm efficiency. Advancements in such technologies have accelerated in recent years and today AI and ML are infiltrating our daily lives in numerous ways. This includes tax and accounting firms.

In fact, 2018 research conducted by the Maryland Association of CPAs, the Business Learning Institute, and futurist Daniel Burrus listed AI and ML among the top trends impacting accounting and finance over the next three years.[5]

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5 Hood, Tom. "The Top Technology Hard Trends in Accounting & Auditing for 2018." LinkedIn SlideShare, 5 Nov. 2018, www.slideshare.net/thoodcpa/the-top-technology-hard-trends-in-accounting-auditing-for-2018
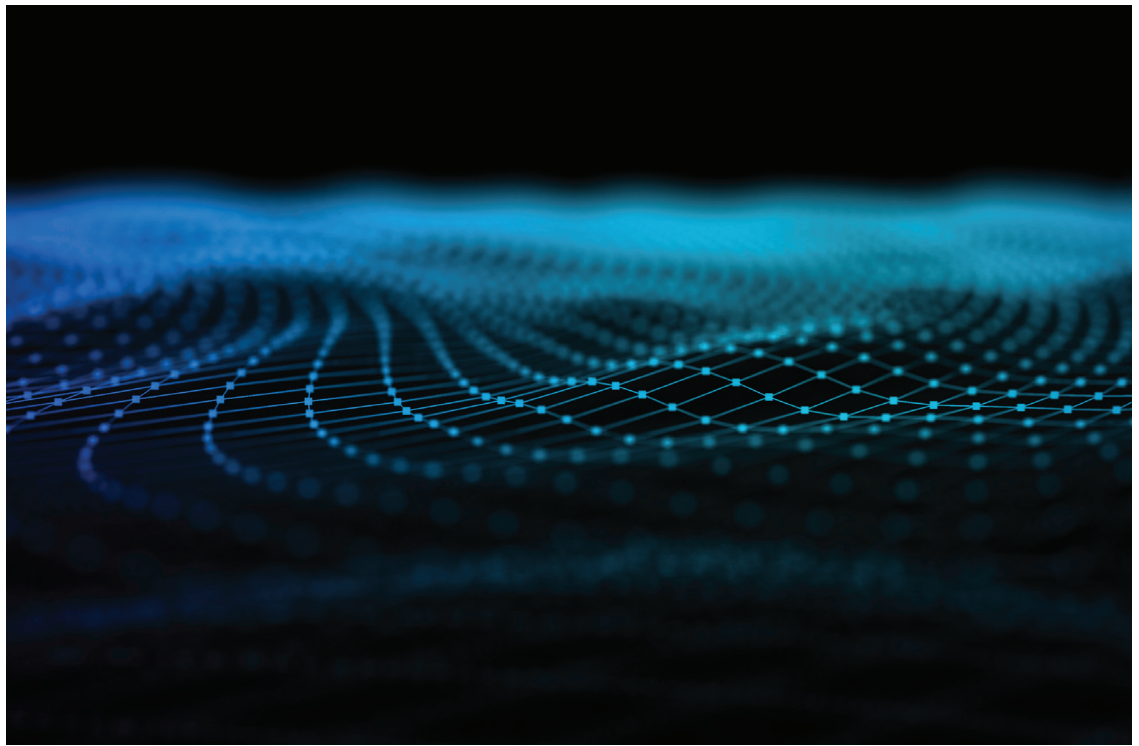
Using advanced technologies like AI and ML to easily extract and aggregate thousands of data points, enables you to significantly save time and money, and boost accuracy.

Using advanced technologies like AI and ML to easily extract and aggregate thousands of data points, like K-1 data, and for tax research (which we'll discuss later) enables you to significantly save time and money, and boost accuracy. Take, for instance, Thomson Reuters K-1 Analyzer™ software or Checkpoint Edge™ research tool.

Schedules K-1 and their supplemental workpapers can be complex. Powered by AI and ML technologies, the web-based K-1 Analyzer can quickly read, extract, and analyze K-1 data from front to back, including unstructured footnotes, statements, and disclosures. This significantly reduces the time spent on manual data analysis, eliminates the manual keying of data, and provides you with the confidence of knowing that they completed all steps for proper compliance with federal, state and international requirements.

Take the first step to greater efficiency

Implementing new technologies can be daunting. Often times firms are left wondering how and where to begin. Consider these tips to help set your firm on the right path:

1. Start by mapping out your workflows and examining the technologies currently being used within the firm. Remember to incorporate lower level staff into the discussion as they likely have critical insights to share.

2. Undergo a scoring exercise by addressing the following questions: a) What is the positive impact for my clients? b) What is the likelihood of disruption, or cost of change, and what will this represent to both the firm and the end client?

3. Assess how many changes you want to tackle at once.

4. Determine how your firm will measure success.

2. Use your technology stack to attract talent

It is no secret that recruiting and retaining good employees is a top concern for many firms.[6] And rightly so. Losing an employee can negatively impact your firm's productivity and profitability, and finding and hiring a replacement can be expensive.

Consider this: The average cost to replace an employee is about 50 percent of that employee's annual salary when you factor in separation costs, recruitment and training costs, and productivity costs. And the more skilled the position, the more expensive it is to hire a replacement. In fact, replacing a supervisor could cost your firm as much as 150 percent of that employee's annual salary.[7]

Let technology help your firm become a talent magnet and avoid the hefty cost of employee turnover.

"Similarly to how firms look at operations – valuing technologies that are connected, integrated, and convenient to use – firm owners should look at staff the same way. They should look at their human capital through the same lens as their technological capital," Greene said.[8]

Underscoring this point, a survey by the Association of Chartered Certified Accountants (ACCA) found that 85 percent of respondents in large accountancy firms said they see technology as an opportunity to focus on much higher value-adding activity.[9]

"Work-life balance is becoming more and more important to younger generations and technology is seen as an enabler. Process automation can significantly help reduce the time spent on mundane low value-adding tasks, cutting down workload and allowing professionals to focus on broader problem-solving and client-facing activities," the ACCA report stated.[10]

Help your firm engage and motivate staff by leveraging technology that automates mundane tasks and streamlines workflows. This enables staff to spend more of their time on more satisfying, value-adding functions like consulting and advising clients. Being able to serve clients remotely anytime, from anywhere through the use of cloud-based solutions, gives staff the flexibility to achieve the greater work-life balance they desire.

Implementing innovative technologies also helps demonstrate to staff that you're a forward-thinking firm that strives to retain its competitive edge.

"In order to really delight staff, firms should be set up in a way that allows staff to integrate their work into their lives, providing connectivity without sacrificing convenience. This can be done in a number of different ways, but one fundamental aspect of it all is the use of cloud technologies ... and the use of tools that empower staff to work independently instead of forcing them to be dependent on others to complete their work," Greene said.[11]

To expand on Greene's point, take, for example, tax research. Firms can spend less time on tax research – while empowering younger associates to efficiently find their own answers and free up senior staff – by implementing a robust tax research tool. This means leveraging a solution that offers intuitive and predictive search capabilities, suggests relevant expert insights and analysis, and is powered by the latest in AI, cognitive computing, and ML technologies.

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6 AICPA, 13 June 2019,
https://www.aicpa.org/press/pressreleases/2019/staffing-remains-top-concern-for-cpa-firms-survey-finds.html

7 Calculating The Cost Of Employee Turnover. G&A Partners, 1 Oct. 2019,
www.gnapartners.com/article/how-much-does-employee-turnover-really-cost-your-business

8 Greene, Corey, phone interview, March 25, 2020

9 Generation Next: Managing Talent In large Accountancy Firms. ACCA, 2018,
www.accaglobal.com/content/dam/ACCA_Global/professional-insights/GenerationNext-large-firms/ACCA - Generation Next - Managing talent in large accountancy firms.pdf

10 Generation Next: Managing Talent In large Accountancy Firms. ACCA, 2018,
www.accaglobal.com/content/dam/ACCA_Global/professional-insights/GenerationNext-large-firms/ACCA - Generation Next - Managing talent in large accountancy firms.pdf

11 Greene, Corey, phone interview, March 25, 2020

"Even if you're satisfied with your current tax software because you believe your tax workflow is efficient, you should still consider the other factors at play such as, 'How easy is it for your staff when tax research is required?' " said Greene, who stressed the importance of empowering staff to work independently to reduce the need to disrupt each other's workflows.[12]

It should also be noted that implementing an easy-to-use, integrated solution reduces the learning curve and can make on-boarding more efficient and cost effective.

At the end of the day, a happier staff means happier clients, which, ultimately, leads to happier profits. Leveraging the right tools and resources can help lead your firm in the right direction.

3. Minimizes risk, minimize potential losses

Mitigating risk and minimizing the potential for errors is critical. Making a mistake can tarnish your firm's reputation and erode client loyalty; it can also lead to hefty fines and penalties being issued against your firm. Both of these scenarios boil down to lost dollars for your practice.

Furthermore, a 2019 IBM Security study found that inadvertent breaches from human error and system glitches are costing companies $3.50 million and $3.24 million, respectively.[13]

That's why it is important to understand the important role that innovative and up-to-date technology can play in helping your firm reduce errors and mitigate risks.

For starters, eliminating the manual re-keying of data – and the accuracy risk associated with it – helps you not only work faster, but also significantly reduces the potential for errors.

Having access to robust tools and resources also helps you ensure compliance in today's complex regulatory environment, which is understandably a top concern among many firms.[14]

"The IRS, and not just the IRS but also some of the audit governing bodies and other regulatory authorities that hold water over tax and accounting, they are all shifting, I would argue, more of the burden of responsibility for accuracy and fraud detection off of the end client and onto the profession," Kleinsmith said.[15]

Keeping pace with the ever-changing regulatory landscape is no small feat; therefore, it is essential for you to maximize research capabilities and implement a solution that quickly delivers the most relevant and accurate information.

Too often, staff members turn to search engines for answers on unreliable or unverified sites, which increases the risk of inaccuracies and also leads to more time spent verifying answers.

Even if staff members turn to a trusted source, like IRS.gov or a state website, for information, it still presents inefficiencies because they must then apply that information to the specific situation their client is facing. It also opens the firm up to the risk of misinterpretation of that information.

To further illustrate this point, if you typed "qualified business income" into a search engine, you will get roughly 300 million search results. Now, think about the time you would need to invest sifting through those results to identify the reliable, up-to-date sources that present information most relevant to your client's specific need and scenario. That's staff time being wasted. Time that could be better spent serving clients and on revenue-generating activities.

It should also be noted that junior staff is often unable, or even not permitted, to conduct tax research. This burden then falls onto the senior staff or the partners themselves, which disrupts their workflow and takes away time that could be spent on more revenue-generating opportunities.

Making a mistake can tarnish your firm's reputation and erode client loyalty; it can also lead to hefty fines and penalties.

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12 Greene, Corey, phone interview, March 25, 2020

13 "IBM Study Shows Data Breach Costs on the Rise; Financial Impact Felt for Years." PRNewswire.com, IBM Security, 23 July 2019, www.prnewswire.com/news-releases/ibm-study-shows-data-breach-costs-on-the-rise-financial-impact-felt-for-years-300889090.html

14 AICPA, 13 June 2019, https://www.aicpa.org/press/pressreleases/2019/staffing-remains-top-concern-for-cpa-firms-survey-finds.html

15 Kleinsmith, Jordan, phone interview, March 25, 2020

Spend less time on tax research, empower junior staff to efficiently find their own answers, and, ultimately, mitigate risk with a powerful tax research tool. Consider a solution that offers the following:

- The ability to simultaneously search trusted sources like IRS.gov, IRS Tax Map, Forms & Instructions, state-specific departments of revenue, AICPA, EY, and Deloitte

- Goes beyond results to suggest relevant expert insights and analysis

- Leverages AI-powered algorithms to scan a myriad of primary sources and editorial interpretations to quickly surface relevant information

- Is so intuitive that junior staff can find their own answers, freeing up senior staff to spend more time on billable activities

- Incorporates natural language processing technologies to enable plain English queries

- Continually synthesizes users' questions and search behaviors to learn and improve search results as it is used

More, now than ever, you need technology to survive

Today's ever-changing and complex environment can present uncertainties, but your firm's profitability shouldn't be one of them.

With the right technologies in place, your firm can drive profitability by weeding out inefficiencies, attracting and retaining top talent, and mitigating risk. This involves implementing tightly integrated systems, leveraging the cloud, and tapping into the power of advanced technologies like AI and ML.

The good news: You don't have to go it alone. Turn to a trusted solution provider, like Thomson Reuters, to help your firm deliver the unparalleled service and unprecedented productivity needed to better compete and achieve greater profitability.

Spend less time on tax research, empower junior staff to efficiently find their own answers, and mitigate risk with a powerful tax research tool.

Checkpoint Edge

Checkpoint Edge™ is the next generation of our Thomson Reuters Checkpoint® research and guidance tool for tax and accounting professionals. It delivers the latest in artificial intelligence, cognitive computing, and machine learning technologies, combined with the tax and accounting expertise of our editorial staff. It enables you to find fast, accurate answers with a more fluid and intuitive user experience.

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Thomson Reuters UltraTax CS®

UltraTax CS professional tax software automates your entire business or individual tax workflow and delivers powerful, time-saving tools. You'll access a full line of federal, state, and local tax programs including 1040 individual, 1120 corporate, 1065 partnership, 1041 estates and trusts, multi-state returns, and more. UltraTax CS seamlessly integrates with other Thomson Reuters solutions, including CS Professional Suite® and Onvio® cloud software, so you never lose any billable hours to manual processing. Meet all of your tax workflow needs with a customized, end-to-end solution built on cloud computing, advanced data sharing, and paperless processing.

Learn more at tax.tr.com/ultrataxcs.

K-1 Analyzer

Using artificial intelligence and machine learning, Thomson Reuters K-1 Analyzer™ software allows you to quickly extract and aggregate complex, non-standard K-1 information from front to back, including unstructured footnotes, statements, and disclosures. This web-based, user-friendly tool combines years of K-1 structure refinement and years of machine training from more than 100,000 K-1s, with a continuous learning process that grows smarter with each K-1.

Learn more at tax.tr.com/us/en/k-1-analyzer.

Onvio

Thomson Reuters Onvio® is the next step in the evolution of online software for accountants, empowering your team to work together with the speed and flexibility you need to keep pace in a fast-changing profession. With UltraTax CS integration, you get a robust set of tools to guide your clients. Plus, it's accessible from any device, so your staff and clients can interact where, when, and how they choose. And perhaps most important, Onvio offers enterprise-level security that makes you the first, best line of defense for your clients.

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