



## Shifting to Advisory Services: Accountant Case Study Series

# The Big Shift

## Tax preparation is out and strategic consulting is in at SMD Consulting & Accounting, LLC.

On June 30, 2017, Sean M. Duncan, CPA changed the trajectory of his accounting firm, when he sent a letter to his tax preparation clients announcing that his firm, SMD Consulting & Accounting, LLC, had decided to get out of the tax preparation business.

"We were on track to do about 1,200 tax returns this year, averaging around three-to-six hours per return," he explained. "That's a lot of revenue, for sure, but it's revenue that eats up a lot of your bandwidth. Tax season was effectively ruining five months of our year by taking us away from doing what accountants do best for clients – giving them trusted financial advice."

### Ending tax preparation

Duncan explained that the decision to discontinue tax preparation was inevitable. "As tax preparation becomes increasingly commoditized with inexpensive software, people and companies with returns that don't have a lot of complexity might not need an accountant to do their taxes." Nonetheless, exiting the market triggered a broad emotional response from his client base.

"Yes, there was heavy pushback. Some clients were outright angry," he recalled. "Many simply couldn't comprehend our reasons for exiting. Others were worried about us, thinking we were going to go out of business. Some were upset because they liked working with us."

SMD finished tax work that was already underway and referred clients for future tax preparation to other CPAs in the area. Ironically, some firms that received tax preparation leads referred some of their clients to SMD for consulting services.

### Traditional accounting vs consulting services

Over the past 12 years, Duncan's firm became the largest in the Frisco, Texas market, building a clientele of mostly small businesses that wanted traditional tax preparation and other services. Face value, doing books, and tax preparation on the one hand and providing business consulting on the other seemed to provide Duncan with a comfortably balanced business model. But when he took a comprehensive look under the hood, he eventually came away with a different perspective.

## Quick Facts

Sean M. Duncan  
President and CPA



Firm Name	SMD Consulting & Accounting, LLC
Industry	Accounting
Established	2005
Employees	9
Locations	1
Headquarters	Frisco, Texas
Website	<a href="http://smdaccounting.com">smdaccounting.com</a>



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SMD CONSULTING &  
ACCOUNTING, LLC

"Traditional accounting is more about playing the role of an historian," he observed. "You're basically immersed in bookkeeping and preparing tax returns – reactive activities that are meant to make sure your clients stay out of trouble. Helping them to thrive and grow their businesses had become almost secondary because of the time burdens of tax preparation. The growth of the tax preparation side of the business was dominating everything else we wanted to do – including the delivery of consultative services that our clients needed."

Exiting the tax preparation business enables the firm to increase its consulting activities, such as decision point analysis for clients (e.g., buying vs. leasing and whether to hire new employees) and process improvement consulting.

### Shifting the focus toward consulting

"A CPA knows a lot of stuff about a lot of stuff. From when I started the firm a dozen years ago, we offered consultative services," said Duncan. "There has always been a huge need for that kind of assistance in our geographical market – and likely elsewhere."

"The problem is that tax preparation was taking the consultation part of our business out of the game for almost half the year – every year. Many small businesses who could have used consultative help were arbitrarily waiting until tax season was winding down so they could talk with us." For example, one client that didn't want to bother Duncan during tax season eventually ended up doing three times as much non-tax preparation business with the firm.

A keen observer of trends, Duncan began reading reports about the potential impact of technological disruption in the accounting industry. One of many early warning signs appeared several years ago in the *Journal of Accountancy* ("Technology and CPAs: Visions of the Future"), where an article predicted, "The experts foresee technology automating most data entry and data aggregation work while commoditizing lower-margin services such as tax preparation." A report in *Entrepreneur* ("The Accounting Industry's Death is Great News for Your Business") put it more bluntly: "Ready or not, change is coming to accounting."

Duncan's personal hunch: "The industry needs to prepare for a major shift. In the next five to ten years, I think 50 percent of the tax preparation opportunity for accountants that currently exists is going to go away."

### Creating a better work/life balance

Technological disruption and better long-term economics weren't the only reasons Duncan opted to end tax preparation services. An equally important reason, he said, was the well-being of his employees.

"Tax preparation was making nearly half of every year a pretty miserable experience for our people. With new technology putting the writing on the wall for our future in tax preparation, it also opened the door for us to improve our quality of life. There was more time for personal lives. More time to go to our children's ballgames and school concerts. More time to enjoy life."

### Leveraging the value of payroll service providers

Consulting services is also likely to broaden opportunities for Duncan to work with outside partners, like service providers. Although his firm is out of the tax preparation business, he still helps clients address core business functions like payroll and HR – but he's not interested in being involved with the nuts and bolts of either process.

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"There is almost no value-added for CPAs to do payroll by themselves today. Personally, I would rather take a stick in the eye than do payroll," he said. The transformation of certain payroll service providers, such as ADP®, into Human Capital Management (i.e., "HCM") providers, helps Duncan to validate his position.

"For instance, ADP has the bells and whistles to help your clients. They make it easier and easier for an accountant to use them with a lot of confidence. Their technology and systems are so strong that it doesn't make sense for us to do payroll ourselves. Besides, if a client wants services like benefits administration, ADP's already in that business and much of the data needed to handle benefits comes from pay data."

Applying predictive analytics to gain more insight from client data is emerging as a useful tool for Duncan and his firm. "As with anything, needs vary from client to client," he said. "Consulting opens the door to doing more than interpreting data on a piece of paper for them. I've always believed that the purpose of an accountant is to be more than a diligent filer of forms. Ultimately you should be the one with the knowledge and tools that your clients trust and rely on for good data and recommendations, so they can make sound decisions."

### At the end of the day ...

Duncan believes that most accounting firms might still not yet be ready to make the big shift, as he did, away from tax preparation – but cautions the decision day is coming. "The commoditization of tax preparation is a disruptive force that is well on its way. It's just a matter of when it reaches a tipping point for you."

In his own case, while measuring the impact of making "the big shift" away from tax prep and toward consulting is still in its early stages, Duncan says the trends look favorable. Solid consulting revenue is likely to replace or exceed the loss of tax preparation revenue within about 12 months.

For those firms looking to exit tax preparation and focus exclusively on consulting, Duncan has some thoughts. "When you've made the decision to focus on consulting, make it a total team commitment. Consulting will be your business going forward. Tell your clients about the change and how you can now spend more time helping their business with consulting year-round. And be prepared to lose some clients over leaving tax preparation. As I mentioned earlier, it's an emotional issue. Connect them with good tax prep referrals. Also, have a good idea about how rapidly you can replace that loss in revenue with an increase in your consulting business."

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We do more than payroll.**

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