

AccountancyAge

Cloud computing: fight or flight

The use of online accounting packages has increased greatly over the past couple of years, but is it threatening the future of practices dealing with SMEs? How can firms turn this threat around?

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Accountancy Age, 07 Oct 2010



Online accounting is not a new idea. A few years ago people first discovered that application tasks such as email, word processing and even accounting could be carried out over the internet, or "in the cloud", rather than through software – and for less cost, risk and hassle. For several years now the likes of Xero, Twinfield, NetSuite, Kashflow, Crunch, AccountsNet and ClearBooks have been allowing companies to keep their books online.

But online accounting is now reaching a pivotal moment. The number of companies choosing this option and eschewing traditional accountancy firms is making those firms sit up and take notice. What is more, those websites are starting to get more ambitious, looking beyond simple bookkeeping and moving into more complex accountancy work.

Traditional firms are responding in a variety of ways, some seeking to adapt to this new online world, others to emphasise the value they offer over these new kids on the block. While it is unclear which approach will produce the best results, it is certain that online accounting is here to stay and that no one in the profession can afford to ignore it any longer.

The rise of online

Online bookkeeping solutions promise several important benefits to businesses. Kamlesh Rajyaguru, senior product manager of NetSuite, says that with online accounting "there are no software installation, maintenance and upgrades to the

systems to worry about. This removes that time and financial cost. All they need is a computer or mobile phone connected to the internet, and they can access their accounting records instantly from anywhere in the world.”

These sites are often more affordable than more traditional options and easy to use. They can also function as [business management](#) tools, providing key information at a glance such as projections of tax liabilities and live profit and loss reports. And these online packages often also directly integrate with other management and operational software.

However some, such as Urban Ledgers MD Catherine Davis, argue that, while they are useful, these sites do not replace bookkeepers. “You still need people who understand double-entry book-keeping, VAT implications and so on,” she says. “These websites are great for logging income and expenditure and can facilitate communication between business people and their bookkeepers, but they don’t replace the trained finance professional.”

Taking out the accountants

Others disagree with her, and a growing number of businesses are already dispensing with the services of an accountant and using these sites instead. Indeed Darren Fell, MD at Crunch, argues that, for the smallest businesses at least, his system can entirely replace accountants. He says: “Our system contains thousands of business rules and these do the thinking that an accountant would previously have done.”

As well as the online financial applications, such services also provide advice from an accountant and a dedicated account manager, encroaching directly into the heartland of the traditional accountant.

“This is a revolution in the world of accounting, and it’s one that traditional firms are worried about,” says Fell. “They’ve reacted by claiming we’re a factory offering bad advice. This simply isn’t the case.”

Most in the industry now agree that in the future, freelancers and micro-businesses will use systems like this. Manos Schizas, senior SME policy adviser at ACCA, goes further, arguing that these online accountancy services will soon start to make inroads into the SME market.

“There are many good reasons why SMEs should want their accounting to go online,” he explains. “It’s not happened much yet, but I believe it will do so, and it will present a major problem to traditional practitioners. In simple terms, the great majority of accountancy firms can’t survive without business from SMEs.”

So, how can the industry respond? Many forward-thinking practices are already exploring how they can offer these services. Donald Forsyth, commercial partner at Scott Moncrieff, says: “We’ve been aware of online accounting for some time but in the last three years it’s really gathered pace and so, early this year, we decided it was time we acted. We launched our own online service and have trialled it with eight clients. All are small companies with less than £2m turnover, but I see no reason why it shouldn’t work for a business with a £20m turnover.”

There are products available to help accountants make this shift to a partially online service, and for many firms it may well be the future. However, Barrie Cox, [IT Manager](#) at Hillier Hopkins, points out that it is a slow and by no means certain process. He says: “We are using Online50, which provides Sage Line 50 software as a service. We have been using it for three months now and while the product is excellent, it’s not been as easy as I expected it would be to sell the service

on to clients. I have quoted five or six clients for the service and most of them have just decided to purchase the software themselves.”

Other firms are focusing instead on their selling points over these online rivals. Nicola Parker, an accountant at SJD Accountancy, recently took on a [new client](#) that had been working with an online accountancy service. “The client went with the online accountants because they believed it would save them time and money and be more reliable,” she says. “But in fact they found they received bad advice and never spoke to same person. They’re now much happier working with a traditional accountant.”

While not every online accountant offers bad advice, and that is just one company’s opinion of one service, there would seem to be some scope for traditional firms to position themselves as reliable long-term partners and providers of high-value advice. There is evidence that SMEs want this from their accountants.

The 100th Quarterly Survey of Small Business in Britain released by The Open University Business School in January revealed that 71% want face-to-face contact for new advice and information, and 55% are look to their accountants for this.

If this strategy is to succeed, however, it is vital that accountants actively build long-term relationships with their SME clients. For many firms it will require a significant shift in mindset. As Schizas at ACCA concludes: “There are great opportunities for accountancy firms to move up the value chain selling a wider range of services, but they need to think very carefully about how they deliver that. If they fail to get it right, online accounting will start to become a major problem for them.”

Cleverboxes

Cleverboxes is an IT reseller with ten staff and an annual turnover of £7m. CEO Vernon Yerkess signed up to Netsuite six years ago. “I wanted a system that would allow me to log on anywhere in the world,” he says. “At the time Netsuite was the only solution on the market. I use it to raise invoices and purchase orders, and to check on stock. Because none of us are financially orientated it’s an invaluable tool for managing the business.”

He also has a part-time accountant who comes in for half a day a month and produces management accounts, the balance sheet, and completes his VAT return. He also admits that he could get value from an accountant’s advice. “The Netsuite system is great for logging our financial information,” he says. “But I’ve no idea whether I’m making the right financial decisions. I suppose an accountant could probably save me money on my tax bills.”