

White Paper

How A Small CPA Firm Can Improve Profitability By Up To 27% With A Paperless Office

**It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."
- Charles Darwin**

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An Opportunity of Huge Magnitude

The accounting industry is facing a major challenge to change its modus-operandi. With the fast changes happening in the business environment around them and within their own industry, they are being forced to consider some major changes in the way they operate their business.

In the new business environment, with challenges from outside and inside the industry, CPAs need to consider going paperless – urgently. The costs of not doing so are extremely high. This is actually a situation where even the survival of a CPA practice could be at risk in a short time, if it does not go paperless.

On the other hand, the good news is that this is one challenge that offers very interesting extremes at the both ends of the spectrum. On the one end, not going paperless could threaten the survival of a practice. On the other end, going paperless would give returns on investment that are of astronomical proportions. CPA firms going paperless are reaping returns on investment at four to five times per year on every dollar they have invested in going paperless.

Your clients may have made great returns on Microsoft and Google shares. You could make similar returns on your investment into a paperless office in your practice.

Many CPAs are still looking at it as a trend that they would like to watch before joining. They would like to see if it really catches on before investing any money or effort into it.

However, they really need to look at this trend as the MOST AMAZING opportunity of their professional lives. This is almost like getting into buying Microsoft or Google shares at IPO and reaping the benefits in cash each month and each year thereafter.

This is a trend of change that is extremely urgent but fortunately, this change is loaded with tremendous opportunities for CPAs. So, those who DO NOT ride the trend at the front-end risk their survival, while those who DO ride the trend get to benefit from the huge returns on investments that this generates.

Some of those CPAs who are convinced about the importance of this trend and do take it seriously are not sure how to go about adopting this change in their practice. They see a large number of document management systems that are being offered to them at a

price that makes them think many times before even making the first call.

This paper proposes that there is a very simple, low-cost, low-risk path for most small and medium-sized CPA firms to adopt to go paperless in a very short time. This path also improves the probability of success of conversion and provides complete control to the CPA.

The challenge to change is real. Fortunately, it comes loaded with very heavy incentives for those who do adopt the change. The process is not as complicated as it seems. This is not the time for CPAs to sit out and wait to watch the evolution of the trend, because this time sitting-out could be very costly.

No Time to Wait - ABSOLUTELY

Entrepreneurs in every industry know that innovation and change are unavoidable. Their industry tools will change, their product and/or service offerings will change, their customers' preferences will change, and their own competencies will change. To be successful, besides other things, they must be prepared to change with the times.

Many changes are slow and noticeable. They provide adequate time to the business owners to adapt and become familiar with the changes before adopting them. You may have been able to survive without a cellular phone for some time before you gave up. You may have been able to survive with a thermal paper fax machine before you gave up. You may have been able to survive with a dot matrix printer for some time before you gave up. You probably could not wait for too long and take your time before starting to e-file your clients' tax returns. You probably could not keep preparing your clients' tax returns manually for too long.

There were areas where you could take some time and then there were areas where you could not. Any change is intimidating. It is difficult. Unfortunately, many of them are inevitable.

Currently, the accounting industry is facing a serious challenge to CHANGE. The pressures are from within and without the industry. As usual, there are thousands of CPAs resisting change in their industry. However, there is absolutely no doubt in the fact that this change is unavoidable and it is arriving faster than any of us would want it to.

Consider this. You have a potential client who sends you an email and wants to hire your services. He is an EBay vendor. That is true. There are thousands of EBay vendors who are full-time EBay vendors. CPAs have clients who just sell online and have financial statements much stronger than many of their brick-and-mortar clients. They communicate by email all the time, send their information and data by email and want their work back by email.

Your existing clients are changing. They are exposed to immense pressure from the technology world. They like to communicate by email, they like to monitor their bank accounts online, they like to pay their bills online and very soon they will hate having to bring to you a pile of paper each month and pick up printed financials from you.

Your new clients could be a completely new breed. Online sales are increasing at a rate that is in double digits each year. According to a news report published in The Internet Retailer, at their web site www.InternetRetailer.com in November 2008, the online sales, under stressed economic conditions, grew 9% in the second quarter of 2008. While this was lower than the 22% growth in the second quarter of 2007, it was double the growth, of 5%, in offline sales in the same period. Many of those vendors who are sharing that business online are small business operations who could be great potential clients for your practice, only if you are ready for them.

We have now entered an era of virtual business at a large scale. We cannot ignore the trends in the business environment around us. The entrepreneurs of the digital world would like to work with professionals who are in-tune with the digital world.

Working in the new business environment requires that we change the way we practice. Not only do we change but also we consider it a top priority – an urgent matter. The challenge of this change is that it is happening at an amazing pace. The longer you take to think about it the more risky is your survival. Yes, that is a radical statement, but it is not untrue. To convince yourself that a change in an industry could be so devastating, go to your most well stocked electronic store and try to find an electronic typewriter (let us not even discuss the manual typewriter) and see if you can find one. Think what happened to those who were only manufacturing typewriters and did not wake up in time to catch the wave of change.

The accounting industry is at the verge of facing a similar challenge. We need to wake up in time to catch the wave of change.

In order to be able to operate in the new electronic business environment, the accountants face a major challenge and that is the PAPER. We deal in papers. Thousands and thousands of papers each year. We love papers. We pile them up on our desks, we store them in our filing cabinets and we save them for years in our storage facilities.

The accountant of tomorrow will have to learn to operate a practice which is almost paper-free. That is the required first step for you to be able to cater to your "new client." Therefore, the first step for the accounting profession to be able to cater to the client of tomorrow is to eliminate paper from its offices.

Many articles have been written in professional journals about this subject and most experts in the field agree that it is no more a question of whether an accounting practice should go paperless. The question is when?

There are some factors that are internal to the accounting industry that are also creating the pressure on accountants to change and go paperless. There are many accountants who are operating at the front-end of technology by providing online accounting services and operating paperless offices. They are already operating successfully in the virtual world and are probably much more profitable than traditional accounting firms are, since they do not have high overheads.

Large accounting firms that once used to ignore the small and medium-sized business clients are now trying to attract those clients. According to a survey, reported by Association for Accounting Administration, of accounting firms with the average firm size being just over 64 members a majority of them were carrying out their normal business activities in a paperless way (www.cpaadmin.org). Suddenly the economics of the client servicing has changed for them. The new client, the client of the digital world, is easier to service at an affordable cost. The new client is also willing to pay a little higher price for professional services if he or she can get the quality, with the necessary convenience.

Therefore, small CPA firms should not take this trend lightly at all. Their slow response to this demand to change could potentially place them in direct competition with some larger CPA firms. That is not a pleasant situation, and it can be avoided. They already have a number of their colleagues ahead of them in this trend.

There is an interesting element to this challenge to change. This change has the potential to place the accountants in a much better situation than they currently are. Often changes are difficult and sometimes necessary only to maintain the current status in your business. This change is different. This has the potential to provide you years of growth within a short time, if handled properly.

In a paperless office where you reduce your paper-handling time from 25% to 5%, you are able to create the additional capacity without any increase in your payroll costs. In an article titled "*A Paperless Success Story*" in Journal of Accountancy, October 2003, Sarah E. Phelan says, "Clients pay for service, not time. An audit that formerly took 100 hours and billed at \$15,000 based on per-hour charges still costs the client \$15,000 but now may take 70 hours to complete. Staff members save time they can apply to other jobs." That is an excellent example of how growth comes fast. You will be able to charge the client the same fees that you were charging before and thus make more profit on that engagement. You will also have up to 25-30% of the staff time released to apply on another engagement and earn profit on that.

According to various studies and statistics, an average accountant and his or her staff spends about 25% of their time in document management. This is the time that is not using your intellectual capacity to its best. You can do a very good job making sure that your paper is filed in the right place and you have a file in its place. However, you were trained for some quite complicated tax and accounting issues and you would rather be working on them than pushing paper.

It is not yet possible to achieve 100% elimination of paper. Nevertheless, it is possible to reduce your paper-pushing time to 5% instead of 25%. If you think about it seriously, that is a major increase in your income-production capacity. Under existing circumstances, you would have to increase your payroll cost significantly to create that additional capacity in your firm. In a paperless office where you reduce your paper-handling time from 25% to 5%, you are able to create the additional capacity without any increase in your payroll costs.

The additional capacity is of very high quality. These are trained professionals who are now available to provide high-quality service to your existing and new clients, instead of filing papers. When clients get attention, they become very happy. When clients get advanced services, such as financial statements in electronic format, they feel proud of you and mention you with pride to their friends and business associates. Therefore, not only do you have a very happy client, which of course means opportunities for additional revenue from him, but you also have many new clients referred to you.

Accountants know very well that there is no better marketing than word-of-mouth marketing. When a client refers another client to you, you have scored a home run in your marketing strategy. A paperless-office has the potential of giving you many such home runs very quickly in the process.

Your current staff will experience a higher degree of professional fulfillment by working more on technical issues rather than administrative. You will also gain a strong position in the hiring market with the new office environment, as you will be able to attract strong candidates to work for your firm. A staff with a high-morale is a blessing all CPAs cherish.

Going paperless also prepares you for the challenge being faced by the industry of the shortage of qualified people available to work in the profession. The small firms will be priced out of the competition to hire qualified and experienced personnel in the industry. They can only survive this pressure if they adopt new technology to handle their business and going paperless is the number one item on that list.

Thus, the accounting industry currently faces a challenge to change in a major area of their business. They are being asked to get ready to serve the clients of tomorrow with an efficient and paperless office. They are being asked to part with their most beloved possession in their office – paper. However, this time the change, although urgent and difficult, also brings good news with it. It brings great opportunities of business growth, improved profitability and a high-level of professional fulfillment.

It is already getting to a point where some people are calling it a necessity. Ronald Kranzler, managing partner of Held, Kranzler, McCosker & Pulice in New York, was quoted in an article titled *"Taming Your Firm's Paper"* by Carly Lombardo in Accounting Technology, as saying, "Three or four years ago, paperless was innovative, but now

it's necessary. It is not, 'Should I go paperless?' but 'When?' The longer a firm waits, the further they fall behind."

A Race with a Vague Starting Point

In order to operate in the business environment of tomorrow, accountants must go paperless urgently. Their physician clients have done it. Their technology consulting clients are operating in paperless environment. However, accountants firmly believe that their business is different from their clients' business. It is not easy for an accountant to go paperless. They just do not know where to start. The experiences of their clients are not very helpful, as, they rightly believe, that it is not the same ball game.

The decision and the steps have become even more complicated for the small and medium-sized CPA firms because of the many ready-made document management options available in the industry. These are expensive solutions and it is very complicated to choose the best among them. The difficulty arises from the fact that the accountants who are exploring the possibility of purchasing one of those systems are doing so to take their practice from paper-full to paper-free, with the help of these systems.

Without any prior experience of operating in a paperless environment, it would definitely be very difficult for anyone to decide on which system is the best for him. All ready-made solutions offer benefits and features, which sometimes sound similar and at other times different. How can an accountant make a decision on which solution to go with?

This truly is a very complicated situation. When we moved from typewriters to personal computers for word processing, the choices were very simple. They were complicated, but not as much as what we face today. The move was very simple and that was to purchase a basic personal computer with a word processing software. The choices became more involved as the personal computer industry started maturing. However, by then most personal computer users were already very familiar with the environment. Therefore, the decision to go with options that are more sophisticated was not that complicated.

In the case of moving from paper-full office to paper-free office with a sophisticated document management system significantly increases the risk of failure. That is one of the main reasons why many

CPAs are delaying their decision to move to a paperless operation. They do want to move but are not sure what system to go with.

Thus, a large number of CPAs who own small or medium-sized practices are wondering where to start the move.

Start Simple – then add the bells and whistles

The best approach for a small or medium-sized CPA practice is to start very simple. While there are some very good, sophisticated document management solutions available, it may not be a good idea to go with one of them immediately. You must first go paperless before selecting a document management system.

Going paperless is not a problem that needs a sophisticated software to help. It is really a very simple process that can be easily undertaken with some basic hardware and software that can be obtained at very reasonable price. Those hardware can be installed with the existing systems in your office and the software would help transform your paperwork into electronic documents.

There are numerous questions in this process. The questions relate to whether the historical documents be converted, the method of filing, the hardware required and the best software for that purpose. It is possible for CPAs to use basic scanners and PDF converter software and a very simple, yet organized and sequential, process to transform their offices into a very efficient paperless office.

It is most advisable for small and medium-sized CPA firms to start in this manner. This avoids the complication of making the right decision as to which document management system should be purchased. It also provides the freedom to the CPA and her staff to design a structure that suits their own practice rather than trying to fit into a structure provided by a certain software. Most important, it provides an excellent learning and experience environment where everyone in the office becomes comfortable working in the paperless office.

After working in a paperless office created without very sophisticated software for a few months or a year, you and your staff will be ready to make a very intelligent decision on a document management system for your office. At that point, you may or may not decide to go with a document management system for your office. By

this time, your staff will be either very comfortable or may have some significant issues with the new paperless process in your office. That is a good time to decide what you will do next. However, you would have already been paperless for a while – you would not be new to the paperless world and that is a big difference than where you stand now.

Thus, going paperless for CPAs does not really need to be handled with any sophisticated document management system. In fact, it may not be the most advisable way to go. Rather, a simple, homegrown and maintained system, based on simple hardware and software, would probably place most CPA practices into a very advantageous position in the future. They would be able to accumulate a good amount of experience in the paperless world and make very informed and intelligent decision on their next document management system, if any. They would be able to save immensely in terms of money and time and reduce the risk of failure of project to convert to paperless significantly.

Microsoft and Google stocks for CPAs, even better

We often hear investment advisors on radio giving the example of Microsoft shares' as one example of extra-ordinary returns on investment. Microsoft went IPO on March 13, 1986 at the offering price of \$21. Because of the stock splits since then, every person who owned one share of Microsoft in 1986 now owns 288 shares of the company. At the time of writing this paper, each share of Microsoft was trading at close to \$27. Thus, investors who stayed with Microsoft since 1986 made a 370 times return on their money over a period 19 years. That is an extremely aggressive return on investment. An average of 19 times per year. Yet, most people were not able to take advantage of this wonderful investment opportunity. Many of those were skeptics who never believed they could make that kind of return. They did not wake up even to Google that has give over four times return on investment within a year. However, these are just examples and not investment advice for anyone. We really are talking about Microsoft and Google to compare the return on investment on their shares to what CPAs could get if they were to go paperless.

This is one change that CPAs could make in their practice immediately at a very small investment and yet benefit in a major way in both business growth and professional fulfillment. It is difficult to calculate the ROI on this undertaking for any CPA firm. There are numerous factors that come into play as the results of such a conversion start coming in. However, the results are often so

significant that the measurement becomes unnecessary (when the ROI is 5 times or 10 times the original investment in the first year).

In an article titled "*Time to Go Paperless*" in Journal of Accountancy of June 2005, the authors Randolph P. Johnston and Robert H. Spencer are quite confident about the returns on the investment of any firm on going paperless. They write, "It's been estimated that every dollar invested in going paperless will generate a return of as much as \$30. Even if that estimate is overblown, the savings still would be considerable."

If you recall the discussion, a few minutes ago, on Microsoft and Google you will see how the opportunity to Go Paperless – NOW, would potentially return at such good rate – multiples of your investment. A few years from now, those accountants who have not gone paperless would either not exist or would have to go paperless – just for survival. Those who do it now will reap all the financial benefits.

The ways you benefit are numerous. You are able to complete tasks much faster and still charge the same fees. You are able to allocate the same staff time to other income-producing projects. You do not have to rent bigger office space to grow – you can grow limitless within your existing office. You grow your business with strong word-of-mouth reference from your existing clients. You will have a strong professional image with a well-organized, clean, paperless office. There have been actual experiences of organizations that have experienced improved revenues just by the improved look of their offices. You will not have any misfiled documents. A PricewaterhouseCoopers study found that each misfiled document costs \$120 in labor to search. Above all, your current clients will feel great about doing business with you. They will not be able to contain their excitement about it.

It is a forgone conclusion

The accounting industry cannot ignore one major change that is imminent and that is the need to go paperless. They now have to be ready for the clients of tomorrow who are virtual entrepreneurs or very e-literate and do not like to work with papers. In order to service these clients the accountants will have to work in the virtual world. In order for accountants to be able to service their clients efficiently, the first requirement for them is to GO PAPERLESS.

There are numerous document management software solutions being promoted to the CPAs to help them go paperless. Most of them are very good and offer many benefits. However, the most effective and efficient way for a small or medium-sized CPA firm may be to go paperless by using some of the very basic hardware and software that are available. This would give them flexibility to develop a simple, yet customized, solution for their practice. This would also give them a good experience of operating in a paperless environment. At a later stage, after few months or a year, if they feel like it, they could always choose to use a sophisticated document management system. At that time, they would be much more experienced in the paperless world and would know much better as to what features they would like to see in their next document management system.

A simple process, such as explained in detail, in the Simple Guide available on www.OfficeWithoutPapers.com would be an excellent start for a small or medium-sized CPA firm and would get them going smoothly on their journey to a paperless practice in a very successful manner.

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The author offers a very simple guide for small and medium sized accounting practices to convert their practice into a paperless office and reap instant benefits from the change. The guide is based on the author's personal experience with the full process that he was able to complete at his own practice in Dallas, Texas, in record time and within a very limited budget. The guide is based on practical experience and is not full of jargon from the technology world. All users of the guide are provided personal support by the author through email and online support sessions. The guide is available at www.OfficeWithoutPapers.com