

OUTSOURCED ACCOUNTING SERVICES – ULTIMATUM OR ALTERNATIVE? *(10 Minute Read)*



THE YEAR OF THE RAT

In 2020 you will be forced to make hard business and personal decisions; many of which you will have to base on instinct and personal experience. To put things into perspective, consider that on 23 March 2020 we had 2.6 Billion humans in some form of lock-down¹ – that’s more people than who were alive to witness World War II. On 13 May 2020 the World Health Organisation (WHO) reported² that globally we had 4 170 424 confirmed Covid-19 cases, and 287 399 deaths. These numbers will have increased significantly by the time this article is published. According to the Asian Development Bank, the global economic cost due to Covid-19 disruptions is estimated to be between 2.3% - 4.8% of global

¹ Mia Jankowicz, Business Insider, 25 March 2020. <https://www.sciencealert.com>

² WHO, Report No 114, 13 May 2020. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

GDP³, or in monetary terms, between \$ 2 Trillion - \$ 4 Trillion (or a 77 216 km high stack of \$100 bills for a visual representation).

SURVIVAL OF THE ...NEVER MIND

The statistics are not quoted to illicit fear or panic (the virus has done that already), but to create a point of reference and an indication of the scale of the situation. There will be continuous challenges for governments to curb the spread and care for the sick, but also to boost, and in some cases restart, economies within a limited framework of financial and health resources. For a sizable number of businesses the next few weeks will be instrumental in deciding their fate, for others it is already too late, and many closed their doors and retrenched staff.

Main Street America (MSA) conducted an on-line survey⁴ during the week of 25 March 2020 to 6 April 2020, to which a total of 5 850 small businesses (90% of which had less than 20 employees) responded to the following question “*If business disruption continues at the current rate, how soon will your business be at risk of closing permanently?*” From the answers it can be seen that a number of businesses can last for no more than 3 to 5 months at the current rate of disruption.

<i>Responses</i>	<i>Percentage</i>
Less than 1 month	5.6%

³ Gokhan Ergocun, AA , 03 April 2020. <https://www.aa.com.tr/en/economy/covid-19-pandemics-global-cost>

⁴ Greg Iacurci, CNBC Personal Finance, 14 April 2020. <https://www.cnbc.com/2020/04/14/>

<i>Responses</i>	<i>Percentage</i>
1 – 2 Months	26.3%
3 – 5 Months	34.1%
More than 5 months	17.6%
Not a concern	16.4%

LAUNCH THE LIFE BOATS

Each business will face a unique set of parameters, circumstances and questions it will need to address based on the business's level of complexity, ability to cope with the current economic situation and global economic sentiment. In broad terms, business owners can consider one, two or a combination of the following three turnaround strategy options:

- *Downsizing of the Business Operation and Employees*
- *Temporary, Partial or Complete Closure of the Business*
- *Financial Restructuring and Redeployment of the Business*

In each scenario the business owner will elect a strategy based on a combination of factors such as the type of business, the industry, ability to make payment arrangements with suppliers, decisions in terms of having stock on hand (if at all), plans to manage and alleviate cashflow pressure, available cash reserves and credit to name a few.

To maintain the analogy of a sinking ship (or shall we say survival of its crew); and whilst it is clear that each of the three strategies can be viewed as a

lifeboat (not ideal but creates a chance of survival) on the one hand, Business Process Outsourcing (BPO) can be seen as the ore that can steer the lifeboat to shore, on the other. Outsourcing swings the odds just a few inches further in favour of the business, in terms of its chances to survive the ordeal.

AND THE WINNER IS...

Outsourcing as a business management tool offers benefits such as being able to select what you require from a range of services, being able to select optimal cost permutations, being able to compile industry specific solutions or to opt for a selection of services on a bundle-based offering.

In a survey by Clutch, a ratings and review site, in 2019, of the 529 small business owners and managers, research found that the top outsourced business processes were; Accounting (37%), IT services (34%), Digital Marketing (34%), Development (28%), Human Resources (24%) and Customer Support (24%).

When the same participants were asked about the reasons for outsourcing a business process they answered as follows (only quoting the top three answers); Increased Efficiency (24%), Increased Available Expertise (18%), Increased Flexibility (16%). In conclusion this survey underlined that accounting is one of the most outsourced business processes, mainly to achieve increased efficiency. Efficiency is brought about by being able to focus more on core roles and functions.

THE GOOD, THE BAD AND THE UGLY

Assuming that outsourcing the accounting function (also referred to as the Finance Department or Accounts Department) is a viable solution for a small to medium enterprise, it would be important, before making a final decision, to consider the pros and cons of an outsourced accounting service.

Pros:

- Substantial savings on accounting software procurement costs, licensing fees and training fees (accounting firms possess in-depth experience on most of accounting software programs).
- More time for the business to focus on core goals and tasks.
- Outsourced accounting services can be compartmentalised as needed and paid for on an *as-required-basis* (meaning it can also be stopped if not needed in a particular month).
- By not having to appoint full time specialised staff, the business saves on staff costs.
- Accounting firms adhere to all compliance, regulatory and fiduciary requirements on behalf of the businesses, preventing huge fines and tax.
- Making use of professional accountants, reduce the possibility of fraud and minimise accounting errors and risks.

Cons:

- The business has less control over the day-to-day workflow and updates are not readily available from a local finance office.
- There is the risk of hidden costs to be charged, especially where complex business processes and accounting is involved.
- The accounting service provider may not necessary be situated locally.
- The service rendered is dependent on the quality of the accounting service provider's internal processes, technology, systems and reporting.
- Immediate reply and response to queries is not always possible as you are not the only client.

A business involved in any one of the three business rescue strategies can decide to take charge of the financial management process themselves. In such instances the business can do one or a combination of the following:

- Appoint a bookkeeper, who can be appointed at a lower monthly rate as an accountant, but who can handle a number of the basic accounting tasks.
- Appoint support and clerical staff to assist in the execution of the financial duties and responsibilities.
- Acquire cloud based accounting software to simplify the accounting and recordkeeping process.
- An owner can personally take over the financial management role.

Again each type of business will face a unique set of circumstances and, depending of the solution selected, will have its own unique range of consequences.

I THINK THEREFOR I AM

For a small number of fortunate businesses, the current economic situation relating to Covid-19 and the lock-down procedures will pass without having had any lasting impact on them. However, there is no guarantee against a situation where outsourcing accounting services may become necessary in future.

For businesses wanting to be better prepared in future, it is sensible to take note and keep track of the precursors or triggers, the tell-tale signs that outsourcing of accounting, as a business process, might be an imminent option:

- Revenue levels reaching approximately R 800 k per annum.
- Employees exceeding 8 to 10 people.
- Receiving external investor capital.
- Senior executives can no longer be involved in every aspect of the business.
- Changing from the *start-up* stage to the *growth* stage of the business.
- Accounting and financial reporting requirements are becoming more complex and detailed.

Let's assume you are seriously considering making the change to an outsourced accounting service provider, what are some of the key questions you need to ask your intended accounting service provider in order to make an informed final decision:

- Do they make use of cloud based accounting software?
- Are all accounting records safe and secure?
- How easy or difficult is access to your own business records?
- How reliable is their IT System and Technical Support?
- What are their monthly charges and how flexible is their service offering?
- How quickly will they respond to queries or special requests?
- How does their reporting structure (frequency, format, queries) work?

In a Forbes article published on 15 May 2020⁵, Jared Spataro, Corporate Vice President for Microsoft (MS) 365 was quoted as saying that MS Teams saw 200 million meeting participants in a single day in April 2020, accounting for more than

4.1 Billion meeting minutes and that MS Teams have approximately 75 Million daily active users. From these numbers alone, it becomes evident that a new reality has dawned (the so-called *new normal*) which will require new solutions and ways of thinking for small to medium businesses.

In a 2019 survey of 529 small business owners⁶ with less than 500 employees, it was found that 37% outsourced at least one business process and that approximately 52% plans to do so until the end of 2020. In echo to this reality, a research report published on 28 April 2020 by GlobeNewswire⁷ (as published by The Business Research Company⁸) estimated that bookkeeping,

⁵ Kelli Matthew, Forbes, 10 May 2020. <https://forbes.com/sites/kelli.matthews/2020/05/10>

⁶ Charles McLellan, ZD Net, 01 May 2020. <https://www.zdnet.com/article>

⁷ GlobeNewswire, 28 April 2020. <https://www.globenewswire.com/news-release/2020/04/28/2023234/0>

⁸ Research and Markets, April 2020. <https://www.researchandmarkets.com/reports/5018681>

auditing and accounting services accounted for \$ 424.18 Bn or 73.8% of the total market in 2019, it was also predicted to be the fastest growing segment with Compounded Annual Growth Rate (CAGR) of 6.6%.

ULTIMATUM OR ALTERNATIVE?

Evidence to support outsourcing of accounting as a business function is overwhelming. This discussion is intended to furnish business owners with a balanced point of view, supported with relevant examples and statistics, to highlight outsourcing as a critical proponent, as a supportive measure to consider during the business rescue process.

The present situation is a lot like staring into a crystal ball and business owners are simply doing their best to protect cashflow reserves and to maintain optimal business operations while contending with intermittent revenue and sporadic health-imposed labour restrictions (such as lockdowns), which is likely to dominate the business environment for the next 18 months, or possibly longer.

Outsourcing, although it comes with certain challenges, appears to be a well-supported alternative to having a fully staffed finance division, during the current economic pressure. One can re-open in-house finance departments once turnover and profitability returns for reasonable and uninterrupted operating cycles. Until then, outsourcing appears to be a suitable support function to accommodate the *new-normal* way of running businesses, at least for the time being.