

Can ASPs save the CPA?

Guest Opinion

By Ken Wurtenberg, CPA

What is happening to the accounting profession? It seems that any time you talk



to a practitioner or pick up a current trade publication and skim the published articles, news of banking and financial industry giants migrating into the accounting industry abound. Many companies are acquiring accounting firms outright or soliciting their client base by providing traditional accounting services.

Accountants seem to be grabbing straws in the wind, searching desperately for new ways just to survive. Many owners of small- and medium-sized businesses have left most of their financial eggs in one basket — the resale value of the practices they built years ago. At the same time, many firms are selling out to big business aggregators in record numbers, fearing their practice resale value will dramatically diminish due to the loss of their client revenue base.

The days of practitioners specializing in tax preparation, financial statement compilations, reviews, and audits are gone. Today, small- to medium-sized firms can no longer rely on these traditional accounting services to generate sufficient revenues; it seems clear that relying on old models for success will no longer suffice in the years to come.

While many practitioners view the financial and banking industry competition as a threat to their survival, the new age of technology has created tools for tax and write-up clients to do more on their own, making it even more difficult to gain and retain clients.

To compete, many firms have begun adding financial planning and computer consulting to their menu of services in order to become more competitive. Unfortunately, due to the complexities and costs involved, only a few practices have been able to implement a financially successful model. The total cost of ownership (TCO) for maintaining a competitive IT department can be prohibitive:

- The price of computer hardware, while dramatically diminished since the early '80s, is still a major factor, and the useful life of hardware has diminished as well; most hardware purchased new today is obsolete in less than three years.

- Operating system software for the accounting industry's core back office programs is also costly and constantly requires upgrading and installation, incurring even more expense.

- Computer training for new and existing staff presents a never-ending challenge.

- Backing up and safeguarding client databases from unexpected emergencies such as hurricane, fire or hard disk failures; from unauthorized access, both internally and externally; and from an endless list of computer viruses can require the services of a full-time IT professional.

- Creating a competitive e-commerce Internet presence for potential and existing clients, employee telecommuting demands, and clients requiring Internet services from their accountants is well beyond the capability and budgets of small- to medium-sized firms. They simply cannot compete with the deep pockets and IT infrastructure of the Goliaths that are threatening their client base ... and their livelihood.

What's the solution? Many organizations of all sizes are turning to Application Services Providers (ASPs) for assistance.

What is an ASP?

According to the ASP Industry Consortium (www.aspindustry.org), an independent international advocacy group for the ASP segment of the computer industry, an ASP is broadly defined as "any company that delivers and manages applications and computer services to subscribers/clients remotely via the Internet or a private network."

The emerging ASP industry represents a new global community devoted to a revolutionary upgrade of how firms do business, both internally and externally, by allowing them access to up-to-the-minute technology without the technological headaches.

In other words, ASPs can replace a firm's IT department by providing the same services via the web. They host software applications off-site in a 24/7/365 secure data center, usually maintained by an Independent Service Provider (ISP). They allow authorized employees and clients to gain access through the Internet or private networks that deliver information to their desktops. Such technology enables the firm's employees and clients to access and send digital information to and from anywhere, anytime.

How can an ASP help a CPA?

Today, information is being globally transmitted, processed and accessed via the Internet. The right ASP can customize and host a firm's back office computer infrastructure and create a new technological way for the firm to conduct its practice for clients and staff.

Firms that harness the power of the Internet by providing information online add tremendous value to their

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Continued from front practices in the following ways:

- Saving the cost of purchasing new and upgraded software applications. An ASP centrally stores software applications on a secure remote web site, usually charging a "per-user or transaction fee" for the hosting and use of the following:

- Software applications such as inexpensive, off-the-shelf programs that have ASP licensing agreements (e.g., QuickBooks, Peachtree, Microsoft Office);
- Legacy applications, which are custom, non-browser-based programs designed with web interface wrapped around existing applications for access through a browser (e.g., Great Plains and ACCPAC);

- Newly emerging web-based accounting applications offering complete accounting suites with fully integrated web store hosting (e.g., Bizfinity, NetLedger and bCentral);

- Custom-design applications meeting specific needs for the firm or its clients (internal and external users with a personalized touch). This enables the firm to offer their staff and clients a custom online environment when they logon for their information.

- Improving the client's perception of the firm (goodwill) and work efficiency for client and staff by utilizing custom-built web applications for the client's database.

- Saving the cost of installing new software on each user workstation since new releases are automatically updated by the ASP.

- ASPs are scalable to meet the growth needs of a firm, thereby minimizing capital investment in equipment that quickly becomes obsolete. Hardware (servers) that hosts the firm's applications is leased, eliminating the need for the firm to invest in expensive costs and system administrative overhead.

- ASPs host and manage the network services for the firm, providing a secure co-location facility that provides around-the-clock access (24/7/365 with 99.9% uptime).

- Data is centrally located in a secure environment accessible only to the client and authorized

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staff, ensuring regular and reliable backups, the latest anti-virus protection, secure data encryption, and safeguarding from hackers and unauthorized users that protect confidential files and information.

- They can create web interfaces for the Internet, providing unrestricted, world-wide exposure; an intranet for controlled, secure internal access; or controlled and secure extranet access for clients, suppliers and partners.

- They can provide tools for the firm's internal and external communications needs, thereby distinguishing the firm's practice as an online business to present and future employees, new and existing clients and partner alliances, providing each with an appropriate level of access.

Not all ASPs are alike?

Just as all CPAs are not alike, it is fair to say that ASPs are also different. ASPs are evolving from several business models: Internet Service Providers (ISPs), Network Service Providers (NSPs), small developers, systems integrators, Independent Software Vendors (ISVs), and "neo-apps" (e.g., web-based project management that supplements non-ISV business).

Experts predict the ASP market to reach \$25.3 billion by 2004. The majority of ASPs marketing to the accounting industry and their

clients today are Independent Software Vendors (ISVs). Such vendors as Great Plains, Intuit, Peoplesoft, Peachtree and Oracle are racing to market because of the tremendous profitability of the accounting industry.

ISVs are currently reducing their overhead expenses by the cost savings associated with marketing and distributing products via the Internet. At the same time, revenues are increased by retaining direct control of their product licensing, thus eliminating unauthorized use of their software. In addition, ISVs are offering new products and services to their subscribers such as web design, hosting and Internet connectivity.

Despite all the growth potential of the ASPs, Gartner reports that about 60 percent of the approximately 480 retail ASPs have gone out of business recently, and by 2004, only 20 of those will remain as enterprise-class, full-service retail ASPs. Less than 100 will offer successful product solutions. This is according to an article by Patricia Fusco entitled, "Research Firm Bullish on ASP Market," which is available on ASPnews.com.

Finding the "right" ASP for one firm is not necessarily the best solution for another. Firms looking for an ASP must sort through the marketing hype — the promises made to sign up subscribers and attract venture capital — as well as a host of legal and technological jargon. Potential customers should be particularly wary when a company makes promises such as the following:

- The CPA can save on software expenses by short-term rental contracts, avoiding the long-term commitments associated with purchasing.

An ASP relationship should be considered long-term since switching service providers is the most difficult and costly expense.

- There is no longer a need to invest in heavy hardware purchases and maintain expensive network servers with fat workstations. Instead, rent servers maintained by the ASP and purchase thin client workstations.

The truth is that with existing technology, firms still need to maintain in-house servers until software application providers upgrade to new technology. Not all software applications will be successful across the Internet, and many accounting software vendors have old versions that need to be modified for the ASP model.

- Access anytime, anywhere there is Internet access.

No one can guarantee 100% network system uptime, and even the most sophisticated ASPs have downtime. Most firms deliver from 97% to 99% reliable network access. That's three workdays (9 a.m. to 5 p.m.) of downtime each month.

- Secure data all the time.

Unless the ASP has invested sufficient capital within its IT infrastructure to provide subscribers high-level Internet security for data transmission to and from their secure data centers, the data is not secure. What happens to subscribers' data if the ASP is sold or becomes bankrupt?

- One-stop solution shop.

Most ASPs cannot offer their subscribers complete IT solutions. Firms need to enter into multiple ASP relationships, which can be costly and difficult to administer.

Instead of becoming experts at running the firm's internal computer networks, utilizing an ASP can allow the accounting firm to focus more staff time and capital resources on its core competencies. In addition, a firm can increase its productivity and use an ever-present online environment to offer value-added services to its clients. As the firm's online presence grows, the scope and quality of the firm's services are enhanced. Business growth accelerates. The ASPs allow firms to go back to what they do best — providing accounting services. ■

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