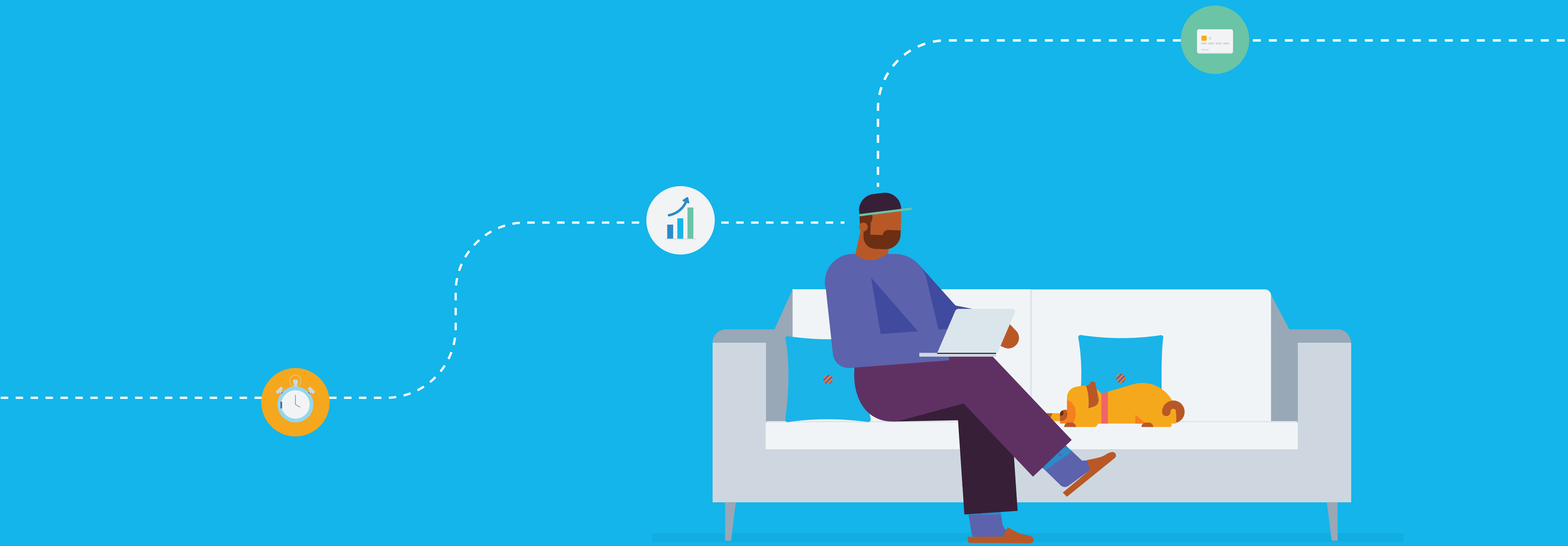
Beautiful business

Young entrepreneurs: the future of your practice



Introduction

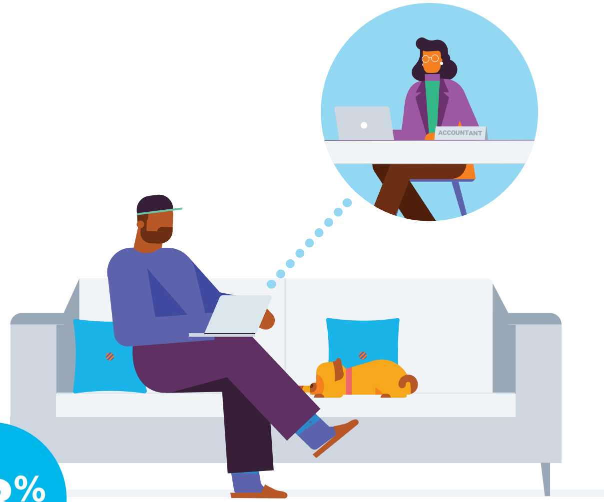
Of the small businesses we surveyed, millennial business owners – those aged 35 and under – own and operate 21 percent of small businesses in Canada. And of all the new businesses in the survey that were established in the last two years, 40 percent were started by millennials. Yet they are also by far the least satisfied with the performance of their external accountants and bookkeepers, with 50 percent looking to change advisors compared to 41 percent of those who are over 35 years.

Until recently, there was relatively little data on how millennials run businesses and what their main motivators are. But it's an important area to know about, because millennials are extremely different from previous generations in one key way: they've been online almost all of their lives.

In Canada, most millennials have probably never written a cheque and they rarely use cash. They're very likely to do all their banking online, as well as using it to do everything from arranging travel to talking to family and friends. They're much more likely than prior generations to find business advisors from online sources, with 71 percent looking online and 32% asking on social media who to pick.

Just as their interactions are vastly different from previous generations', so too are their expectations. Millennials aren't satisfied with hearing from their advisor once or twice a year; they expect a higher level of service. To younger business owners, an advisor is someone who knows what's happening in their business, and who they can call on for advice. But many aren't receiving the support they need. One third of millennial businesses in Canada receive information, ideas and advice from their accountant or bookkeeper at most twice a year.

How can advisors meet the expectations of the next generation of business owners? It's simple: place client experience at the heart of a digital, cloud-based practice.



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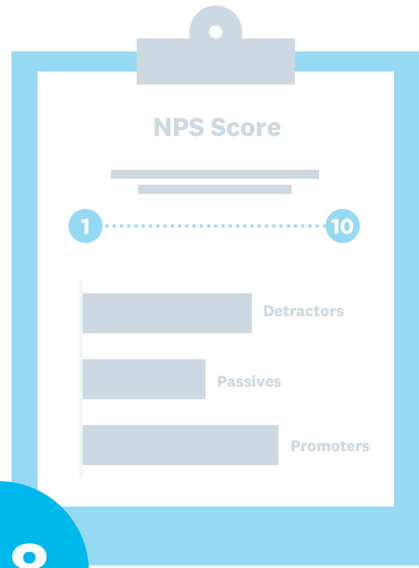
How we measured the millennial business owner mindset

To understand what millennials think about their advisors, we used the Net Promoter Score (NPS) framework. Created by Fred Reicheld of Bain and Company, an NPS identifies how well a given organization treats its customers, by measuring the extent to which a customer would recommend an organization's services to others. It's done by asking a direct and easy question, rated on a scale of 0 to 10.

The question is, How likely are you to recommend your accountant or bookkeeper to other small businesses or friends? Responses are given as a rating from 0 'not at all likely to recommend' to 10 'very likely to recommend.' The response is put into one of three groups. A score of 0 to 6 counts as a 'detractor', 7 to 8 is a 'passive', and 9 to 10 is a 'promoter'. The Net Promoter Score is equal to the percentage of promoters minus the percentage of detractors. The higher the number, the better the NPS is. An NPS close to zero indicates overall neutral word-of-mouth, and negative numbers indicate negative word-of-mouth.

NPS is a useful framework for understanding customer experience. Research by Bain & Company because research shows that promoters refer others, remain as customers for longer, buy more products, and share more feedback and ideas. The NPS also enables direct comparisons across organizations and industries.

Among the small businesses we surveyed, the overall accounting and bookkeeping industry NPS in Canada is 4.8, but millennial business owners rate advisors are slightly better, at 7.4.



4.8

the overall NPS score for accountants and bookkeepers in Canada

Millennial business owners rated advisors slightly better at

7.4

Key findings for millennial business owners

They are a growing market

Of the small businesses we surveyed, 20 percent of all accounting services paid to Canada advisors was from businesses owned by under 35s. In addition, 31 percent of all new advisor-business owner relationships formed were from businesses owned by millennials. This is crucial for practices who are looking to grow by taking on new clients.

They are hugely ambitious

Contrary to popular opinion, millennial business owners are far from lazy and have big goals for 2020:

- **49%** say that business success is about making more money and increasing their income.
- **32%** want to grow their business by hiring new employees.
- **25%** want to maintain their current level of business.
- **15%** are keen to expand their business into new areas and markets.
- Only **2%** anticipate selling or closing their business.

They also want to enjoy the benefits of being in business, with 23% citing "take more holiday this year" as a key measure of business success, and 20 percent saying they want to be less stressed out.

Managing overheads is holding them back

The need to reduce overheads while growing their business is what's holding millennial business owners back. It's also the key to how advisors can best support them. The need to reduce costs is noted as a big hurdle to success for 21 percent of millennial business owners.

Other notable hurdles include:

- Increasing sales and number of customers (34%)
- Keeping up with competitors (27%)
- Hiring employees and retaining staff (21%)
- Keeping up with new technologies (20%)
- Getting customers to pay invoices on time (20%)
- Compliance obligations like GST and taxes (15%)
- Making sure there's enough cash to pay the bills every month (14%)
- Keeping good records of income and expenses (10%)
- Finding the money needed to invest (17%)

Happily, proactive accountants and bookkeepers are especially well-placed to help small businesses with these areas of concern, which require regular contact and check-ins.

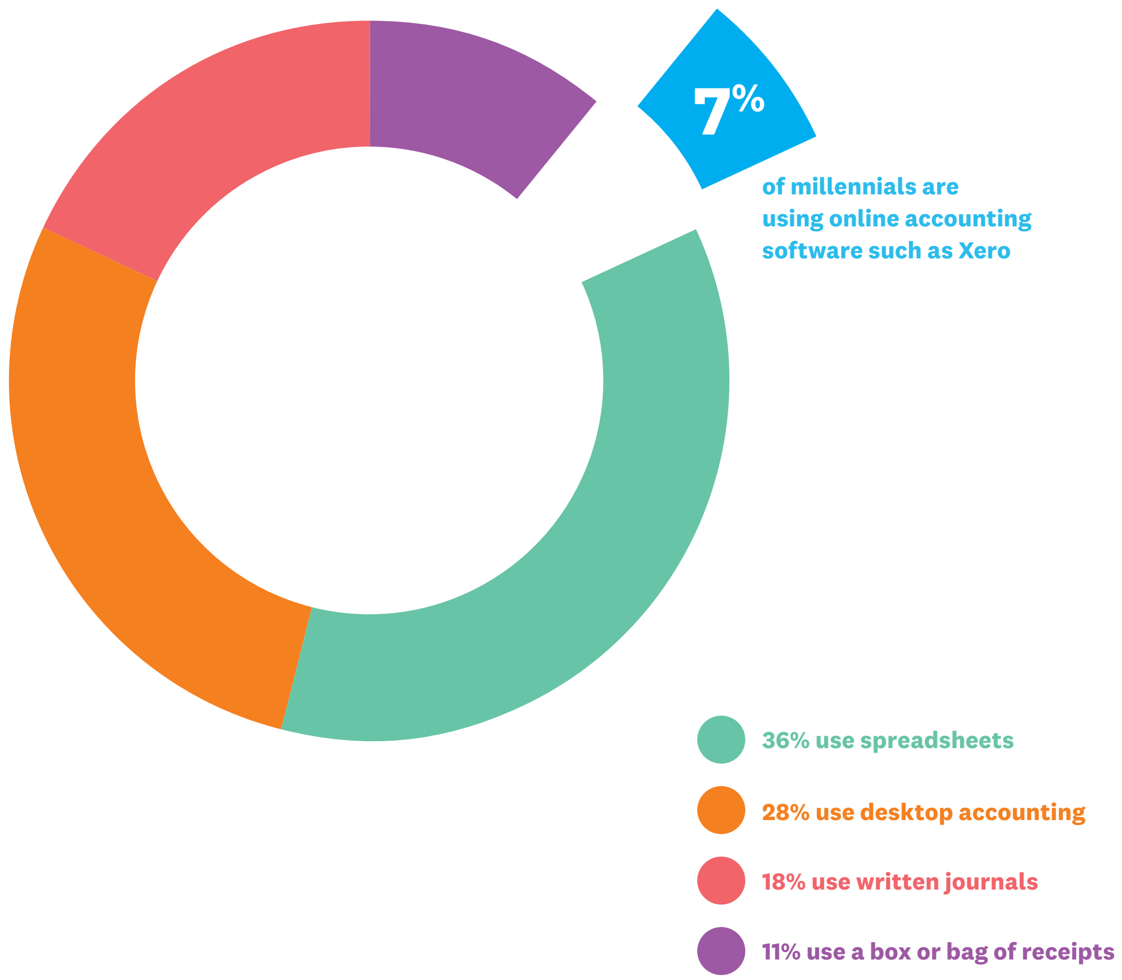
They're not happy with the service they're currently getting from their advisor

With a low 7.4 Net Promoter Score, based on 20% who would not recommend their advisor, it's clear that many millennials are unhappy with their external accountant or bookkeeper. So it's hardly surprising that 50 percent of millennials say they're likely or very likely to explore replacing their existing accountant or bookkeeper in the next year. Tellingly, one third (33%) say that they receive insights from their advisor twice a year at most.

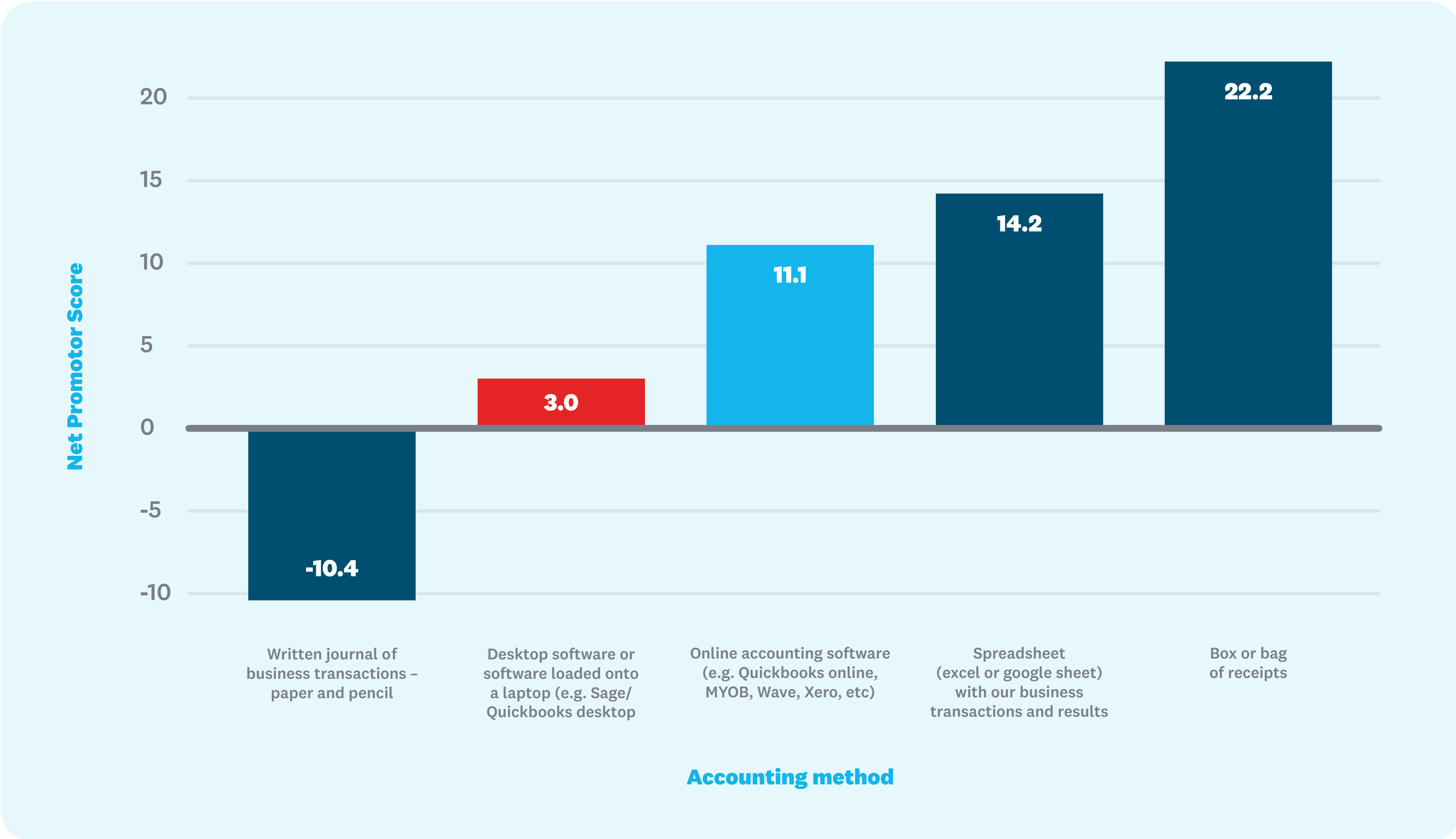
A surprisingly large number aren't on online accounting software - but they want to be

Although millennials have grown up online, a lot of millennial business owners aren't using online accounting software. Just 7 percent are using cloud accounting software – far less than the percentage using spreadsheets (the standout at 36 percent) and lagging behind desktop accounting on 28 percent, and offline accounting methods like journals and a big box of receipts at a combined 29 percent.

This is an interesting finding, because it highlights a remarkable discrepancy with how millennials usually embrace online technology. We believe that, as new business owners, they are using the approach that aligns with their instinctive way of working. For instance, if they already work with spreadsheets or do a lot of customer-facing work, they'll often favour spreadsheets or a box-of-receipts approach. When they do have an accountant or bookkeeper, they expect them to help with automating this work, freeing themselves up from these kinds of tasks.



NPS by accounting method



They're prepared to pay advisors more

Many small businesses run by millennials are in start-up and rapid growth phases, so the owners and employees are shouldering a huge burden of back-office work. Xero accountants and bookkeepers tell us that this isn't what millennials got into business to do, and they find it holds them back, so they're particularly keen to hand off back-office jobs to the experts and they're happy to pay for it.

How advisors can appeal to the millennial small business market

All you have to do is take regular action.

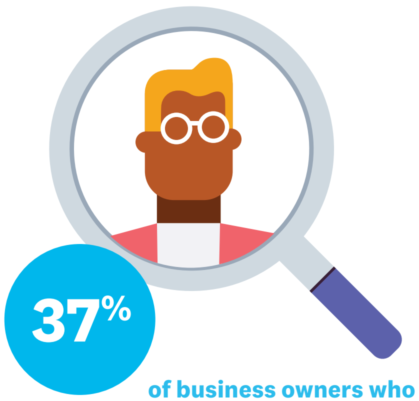
The table below shows advisor qualities that millennial business owners look for. They want advisors who have great attention to detail, are proactive, enjoyable to work with, and add value to their business.

Actions	Knowledge	People	Value
39% **Attention to detail** they are great at getting all the important details correct	39% **Excellent knowledge of our industry**	15% **Their leadership and team members**	39% **Good value** we get a lot of value for what we pay them
39% **Enjoyable to work with** quick and easy to reach them, easy to schedule and reschedule meetings	25% **Very capable with apps and leading technologies**	8% **Their values** who they are as people – what they do and how they do it	
33% **Proactive** they often point out ways for us to improve our business			
30% **Accessible and responsive** when we need something quickly, they are great to work with			

Respondents could select up to 3 options for this question.

Onboarding is everything

We wanted to know how millennial business owners felt about the transition to their new advisor, so we asked them to select from a number of different options.



of business owners who had any of the negative experiences are planning to replace their advisor.

Positive transition experience

27%	It was pretty simple because my new accountant/bookkeeper took care of everything.
24%	I was worried that making the change would be frustrating and time consuming. However, it was much easier than expected.
22%	It was much faster and easier than I had expected.
20%	I knew I needed to change. I kept procrastinating to do it. I wish I had changed a long time ago.
20%	It is totally worth it. Now, I spend much less on my accounts.

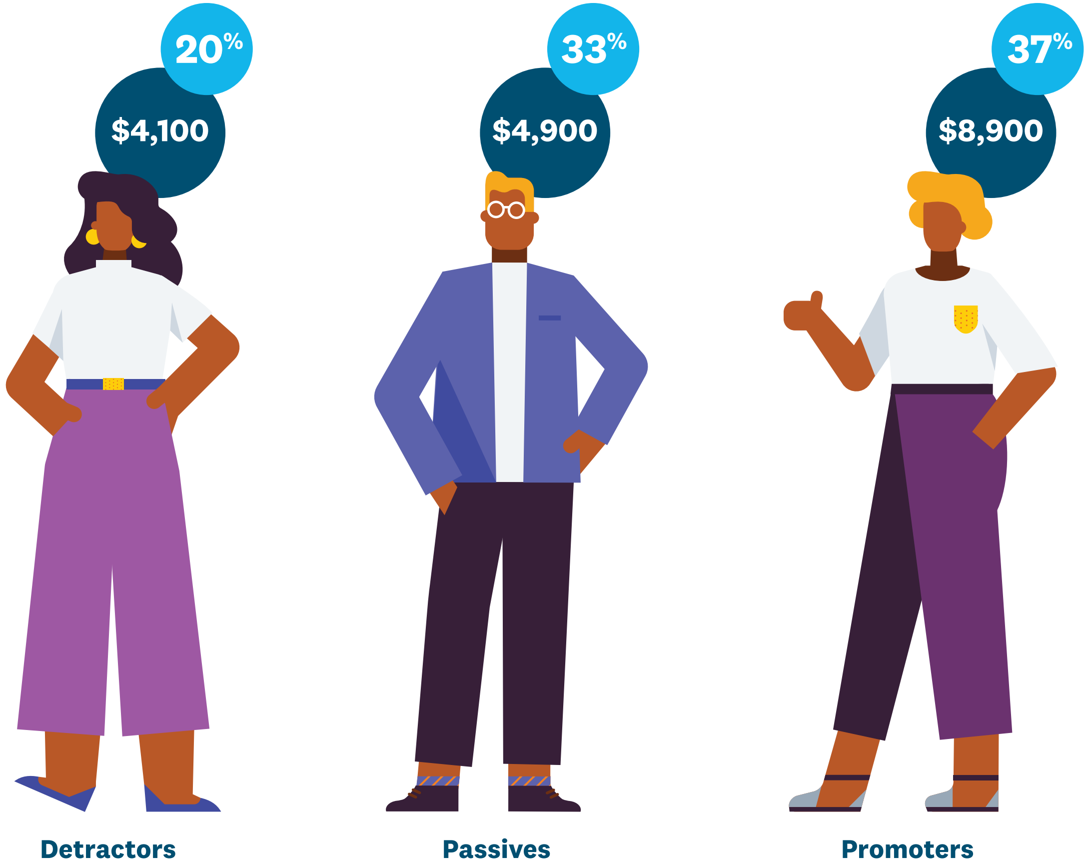
Negative transition experience

22%	I thought it was going to be easy; however, it took a lot more time than I thought it would.
22%	It was hard. I'm never doing it again.
7%	I feel like I was charged too much for the services I received during the switchover.

Respondents could select more than one option.

Promoters pay more, build your word-of-mouth and want to buy more services

Customers who have a good client experience are more likely to promote your business – that makes common sense. Client experience also matters because promoters often want to expand their relationship with their advisors by buying even more services.



Percent of business owners who would pay to avoid doing 3+ back office jobs if they could afford to

Average paid to external accountant/ bookkeeper in the last 12 months

The opportunity: putting client experience at the core of your practice

While the dissatisfaction many millennial business owners feel for their advisors is challenging, it also represents a huge opportunity for forward-thinking bookkeepers and accountants.

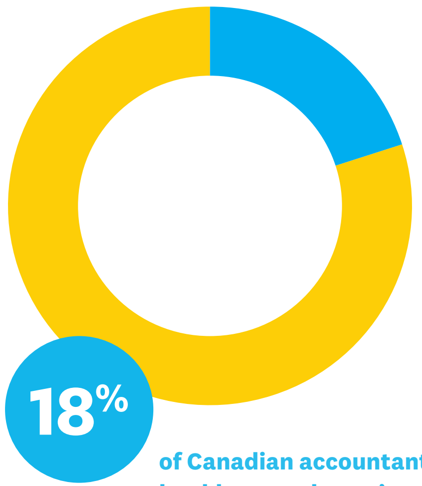
Our data shows that many business owners (18%) in Canada are not asked for feedback by their Canadian accountants or bookkeepers. Those that do seek feedback can use the information gained to improve their client experience.

However, pacesetting practices (the top 10% of firms in terms of growth and revenue relative to practices of the same business age, as surveyed in the [2020 Canada Industry Report]) make a point of asking their clients about their experience. Because these practices design themselves around client experience, their existing clients are more engaged and they're well placed to snap up new clients as market expectations of accountants change. This is good for both small businesses and the practices that serve them.

Fortunately, it's possible to learn from the pacesetting practices and improve client perceptions of your practice. The first step is to start measuring customer sentiment – and a new tool from Xero will soon make that not only possible, but effortless.

The next step is to make sure you're making the client-centric choices that lead to high NPS. As we've seen, simply moving clients to online accounting and regularly providing ideas and advice is correlated with improved Net Promoter Scores.

Online accounting also maximizes data flow and creates the ability to identify opportunities for valuable conversations. Any practice that enjoys and excels at onboarding new online clients has a good chance at securing and satisfying customers from among millennial small business owners.



of Canadian accountants and bookkeepers haven't asked for feedback in the last 12 months

How Xero helps

The Xero Partner Program

The **Xero partner programme** rewards you with a range of benefits that you can tailor to your own practice goals. It's designed to make you even more successful – no matter what success means to you.

Parter resource centre

The guides, reports, books and playbooks available online in the **partner resource centre** bring together a wealth of knowledge and ideas for running your accounting or bookkeeping business and advising your clients.

The Pacesetters

The Pacesetters is a series of books and guides that explore the best accounting practices from around the world, and are derived from comprehensive research and case studies of Xero partners.

The first book is about transforming into a digital-first practice, while the second is about utilizing those principles to offer incredibly valuable advisory services. Both of them can help transform your practice. Buy online from **Amazon Kindle**, or ask your Xero account manager for a hard copy.

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