


 James
 Bourke

Technology Spending in a Down Economy

As CPAs start to feel the effects that have been plaguing the rest of the economy, technology spending is likely to rank pretty high on the list of areas vulnerable to be cut.

March 23, 2009

by James Bourke, CPA.CITP

Depending on what you categorize as “technology expense” and how much risk your firm is willing to take, technology spending in a traditional CPA firm runs from about 4.5 percent to 6.5 percent of net revenues. Although that two-point spread can be fairly significant, it is important to make sure that when you do compare your technology spending to your peer’s that you are comparing apples to apples.

One of the most significant flaws that I have seen in trying to compare CPA firm technology spending is that virtually no two firms categorize this spending in the same manner. The end result is that the CPA firm tries to manage this line item by comparing it to some readily-available industry statistic that doesn’t truly compare with the spending in the firm.

To start the process of analyzing where your dollars are going, you need to make sure that you are accounting for the spending the right way. Here are some general rules to keep in mind when accounting for and analyzing your firm’s technology costs.

Rule #1

View technology cost as a “strategic asset” to the firm. Simply put, if the “right” technologies are deployed in the correct way and tightly-integrated into your practice, you can increase efficiencies easily, improve turn-around time, enhance client responsiveness and ultimately increase profitability.

Before deploying new technologies or replacing existing ones you need to ask yourself, “How will this deployment make us a better, more profitable firm and is this technology aligned with our strategic plan?”

The bottom line: Don’t deploy new or replace existing technologies just because your peers are doing it. Don’t be the firm with the “bleeding edge” technologies that are too early in their lifecycle and not yet ready for full deployment. Deploy to become more efficient.

Rule #2

Make sure your technology cost is “fully loaded” covering all costs associated with firm technology. These costs should include:

- Application licensing;
- Support agreements;
- Hardware, including all end-user machines, servers, networking equipment, etc. (actual dollars spent on all hardware during the period vs. depreciation);
- The purchase and monthly recurring fees for mobile devices like Smartphones, PDAs and

BlackBerrys;

- All communication fees, including local and long-distance telephone charges, bandwidth and local and wide area network connectivity;
- Web-hosting and consulting fees;
- Labor and benefits for those internal individuals supporting your technology infrastructure;
- Technology outsourcing; and
- Any other that can be directly related to technology and communications within your firm.

Once you are past rules one and two, you'll be in a position to intelligently analyze your areas of IT spending.

Spending in the area of software and licensing fees is generally the largest bucket of a firm's technology cost. For this line item:

- **Review and understand license agreements.** Verify the correct number of licenses to match the number of users.
- **Verify the base price upon which the renewal fee is calculated.** Ask about current selling price of the product versus the price upon which your firm acquired the application, as such fluctuations could impact your renewal fee.
- **Look at the applications being utilized by the firm.** Is your firm utilizing multiple write-up, after-the-fact payroll, engagement management, tax preparation solutions, etc? Don't license multiple applications that do the same thing. Stick with one primary tax application, one primary write-up application, etc.
- **Negotiate, negotiate and negotiate!** Keep in mind software vendors, like everyone else, are experiencing the same effects from the downward economy. Make sure you negotiate your best deal at renewal time.

Spending on hardware and backbone equipment is also generally near the top of the list. In this area:

- **Standardize your equipment with one vendor.** Doing so will allow you to avail yourself to quantity discounts at replacement time.
- **Consider extending the lives of laptops and servers** six to 12 months greater than your existing replacement policy. When doing so, also look to extend warranty coverage.

On mobile technologies and communications charges, look to bundle these costs (to the extent practical) with the same vendor. Vendors are more inclined to offer pretty significant discounts based upon volume.

Make sure your staff has the correct voice and data plans in place on mobile technologies. Younger staff has a much greater tendency to communicate with text or e-mail, while more senior staff has a greater tendency to communicate via voice. Plans that share voice and data minutes for the entire firm are a much better fit.

Conclusion

When it comes to a mobile device, don't lose sight of its main purpose. To be productive and responsive to

clients, your staff needs tools that allow them to talk, e-mail and text. Solutions will run from free to in excess of \$500. It would be great to have the latest and greatest handheld technologies with all of the bells and whistles, but given the state of the economy, a device that allows for the basics will suffice.

Knowing the components of your technology cost and the areas within, will put you in a better position to manage your spending in this area during the economic downturn.

*Rate this article 5 (excellent) to 1 (poor).
Send your responses [here](#).*

James C. Bourke, CPA.CITP, is a Partner at WithumSmith+Brown, where he is Director of Firm Technology. He is a past president of the New Jersey Society of CPAs and currently serves on AICPA Council and the Chair of the AICPA CITP Credential Committee. He was recently named by Accounting Today as one of the Top 100 Most Influential People in the Profession.

CUSTOMER SERVICE

- ▶ [Contact Us](#)
- ▶ [Order Tracking and History](#)
- ▶ [Access Online Subscriptions](#)
- ▶ [Forgot Password](#)

CORPORATE INFORMATION

- ▶ [About CPA2Biz, Inc.](#)
- ▶ [Advertising](#)
- ▶ [Visit AICPA.org](#)

GENERAL SITE INFORMATION

- ▶ [Site Map](#)
- ▶ [Terms & Conditions](#)
- ▶ [Privacy Policy](#)

Current Published Version : 1689

© 2001-2009 CPA2Biz, Inc. All Rights Reserved.

CPA2Biz and the CPA2Biz logo are trademarks and service marks of CPA2Biz, Inc.
100 Broadway 6th Floor, New York, NY 10005

All other trademarks are the property of their respective owners.

To place an order by phone or for other assistance, please call 1-888-777-7077.