



Thriveal Laboratory

LAB REPORT

EXPERIMENT 1: BUSINESS MODEL PROTOTYPING

In strategic partnership with





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INTRODUCTION

The Experimenting Begins

You hold in your hands the first in a line of Lab Reports to come out of the Thriveal Laboratory. It represents the connecting link between our Experimental Team and your own experimentation. Thriveal Lab is designed for the accounting profession to accelerate the adoption of today's innovations, and contribute to the imagining of tomorrow's. We hope you'll join us.

The hypothesis of this first experiment is that "there will be multiple successful business models for accounting firms of the future." We've used The Experimental Framework developed by the Lab to design a protocol testing this hypothesis by prototyping accounting firm business models. First you'll see our results, then a description of the protocol we designed. Lastly, we invite you to continue the experiment with us in the Chain Reaction.

These are exciting times to be a CPA, but it requires us to be imaginative. Here's what we came up with – we look forward to seeing what you contribute, and what we can accomplish together.

Goggles on!,

Adrian G. Simmons
Director of the Lab

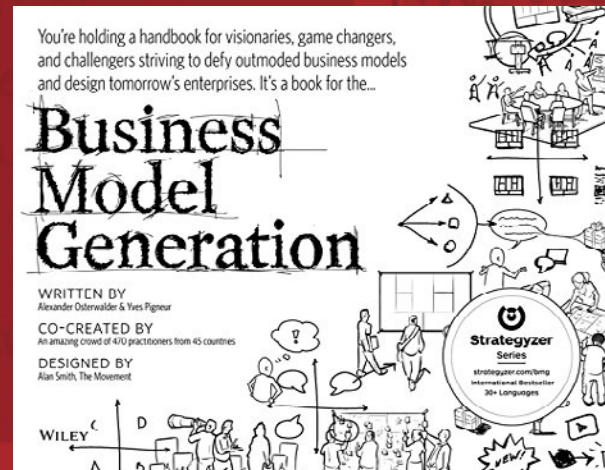
RESULTS

Accounting Business Model Prototypes

A business model describes how an organization creates, delivers, and captures value.

It's not a "business plan." It's not the "business strategy." And it's not the "business processes." Instead, it explains the four main areas of any business: who its customers are, what it offers those customers, what infrastructure delivers that offer, and how it's financially viable. The business model is the foundation of the enterprise, and key to its success or failure.

In 2004, Alexander Osterwalder completed his Ph.D. dissertation on the topic of business model innovation with Professor Yves Pigneur at HEC Lausanne, Switzerland. That dissertation contained the concept of the "business model canvas," a way of visualizing a company's business model as a tool to innovating and re-imagining it. It was later expanded upon in a book released in 2010, **Business Model Generation**, and has since been used by millions across the globe, from small companies to large multinationals.



Business Model Generation

The business model canvas breaks down every business model into nine building blocks: customer segments, delivery channels, customer relationships, value proposition, revenue streams, key resources, key activities, key partnerships, and cost structure. The center of the canvas describes the value proposition, the right side how and to whom it is delivered, and the left side how and what delivers it. In this way, any business, from Skype to LEGO's, can be charted, evaluated, and re-imagined.

As described in our Experiment Design, our goal is to apply the business model canvas to the accounting industry to prototype existing and new models.

The Business Model Canvas

Designed for:

Designed by:

Date:

Key Partners Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform? MOTIVATIONS FOR PARTNERSHIPS Optimization and economy Reduction of risk and uncertainty Acquisition of particular resources and activities	Key Activities What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue streams? CATEGORIES Production Problem Solving Performance/Network	Value Propositions What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying? CHARACTERISTICS Newness Performance Customization "Getting the Job Done" Design Brand/Status Price Cost Reduction Risk Reduction Accessibility Convenience/Usability	Customer Relationships What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they? CHANNEL STRATEGIES Direct Indirect Self-Sales Automated Communities Co-location	Customer Segments For whom are we creating value? Who are our most important customers? Mass Market Niche Market Segmented Diversified Multi-sided Platform
	Key Resources What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams? TYPES OF RESOURCES Physical Intellectual (brand, patents, copyrights, data) Human Financial		Channels Through which channels do our Customer Segments want to be reached? How are we reaching them now? How do we plan to reach them in the future? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines? CHANNEL PHASES 1. Awareness 2. Evaluation 3. Purchase 4. Delivery 5. After sales How do we help customers evaluate our organization's value Proposition? How do we allow customers to purchase specific products and services? How do we deliver a Value Proposition to customers? How do we provide post-purchase customer support?	
Cost Structure What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive? IS YOUR BUSINESS MODEL Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing) Value Driven (focused on value creation, premium value proposition) SAMPLE CHARACTERISTICS Fixed Costs (salaries, rents, utilities) Variable costs Economies of scale Economies of scope		Revenue Streams For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues? TYPES Asset sale Usage fee Subscription Fees Licensing/Renting/Leasing Licensing Brokerage fees Advertising FIXED PRICING List Price Product feature dependent Customer segment dependent Volume dependent DYNAMIC PRICING Negotiation (Bargaining) Yield Management Real-time Market		

Middle-aged children & their parents

<u>Key Partners</u> Elder law attorneys	<u>Key Activities</u> Retirement spending plans Bill paying <u>Key Resources</u> Electronic bill paying software	<u>Value Propositions</u> Financial management for parents Tax prep service for children Retirement planning for children Network with elder law resources	<u>Customer Relationships</u> Primarily with children Technology enabled <u>Channels</u> Web portal	<u>Customer Segments</u> Upper middle class with aging parents Tech awareness for children
<u>Cost Structure</u>		<u>Revenue Streams</u>		

Middle-aged Children & Their Parents

The population is aging, and those working with elder clients can experience that they have difficulty keeping track of financial things. More often than not, one or more of their children step in and begin assisting in the financial affairs. What if an accounting firm specialized in serving the market of middle-aged children and their parents? The firm could set up a standard system for digitizing and automating the parent's bills through services like Bill.com, ReceiptBank, Hubdoc, or others.

The firm could provide online transparency of transaction history to the middle-aged children. And it would prepare the tax returns for both parties, provide retirement preparation advice to the children, and retirement maintenance guidance to the parents, while partnering with attorneys who work in elder law for related services.

Solo international tax specialist

<u>Key Partners</u>	<u>Key Activities</u>	<u>Value Propositions</u>	<u>Customer Relationships</u>	<u>Customer Segments</u>
		Risk reduction Complexity mastering	Ongoing relationship with select pool of CPA firms	CPA's with business customers with international reach
	<u>Key Resources</u>	Enhance value of CPA's firms served	<u>Channels</u>	CPA's with international executives
	Specialized research tools		Video conferencing Secure doc exchange	
<u>Cost Structure</u>		<u>Revenue Streams</u>		
No physical office necessary		CPA's pay fixed amount for annual access to specialist		

Solo International Tax Specialist

The area of international tax law is growing, and with the expanding global economy, more and more individuals and businesses are being impacted. What if one CPA devoted their entire focus to international tax law, and was on retainer to a portfolio of CPA firms to help them answer and resolve international tax issues that came up among their client base? Her customers would primarily be CPA firms, although she would potentially interact with the client as well. And her work would be facilitated by secure document exchange through services like ShareFile and SmartVault, as well as video conferencing for meetings.

The main value proposition of this model would be reducing risk exposure for customers in complex situations, and the comfort of knowing it was done right based on the broader experience of the specialist.

This same model could also apply to other areas of complexity, like web-based shopping cart integrations with online accounting systems, International Financial Reporting Standards, and more.

Fleet of Controllers/CFO's

<u>Key Partners</u>	<u>Key Activities</u> Management reporting and meetings <u>Key Resources</u> Team of CPA controller / CFO each assigned 5 companies Knowledge database	<u>Value Propositions</u> Does last bit of fancy accounting Provides sophisticated financial modeling, analysis, & guidance	<u>Customer Relationships</u> Weekly touch points for each customer <u>Channels</u> All digital Online dashboard	<u>Customer Segments</u> Large enough to have internal bookkeeper but not financial exec
<u>Cost Structure</u> Online services and digital meeting subscriptions	<u>Revenue Streams</u> Electronic monthly payment			

Fleet of Controllers/CFO's

A certain segment of the market is large enough to have its own bookkeeping and/or accounting staff, but not its own Controller and/or CFO. What if an accounting firm had a fleet of Controller/CFO's and each assigned five to ten customers? A standard set of internal control processes, management reports, and decision tools could be leveraged across all entities and customized by the assigned CPA, who directs keeping the records accurate, reports on financial performance to management, helps guide the financial decisions, and then implements the financial side of decisions made by management.

This is enabled by cloud-based accounting systems like Xero and Intacct, cloud-based reporting tools like Klipfolio and LivePlan and Fathom, and cloud-based communication systems like Google Hangout and Yammer.

Low touch standardization

<u>Key Partners</u>	<u>Key Activities</u> Tax preparation Bookkeeping Payroll	<u>Value Propositions</u> Traditional standardized service Speed of service Technology-only interface	<u>Customer Relationships</u> Job completion centered Little planning advice	<u>Customer Segments</u> Larger number of clients Low complexity customer profile
	<u>Key Resources</u> Web-based financial systems Web-based support ticket system		<u>Channels</u> Internet only Mobile app for status updates & discussion history	
<u>Cost Structure</u> Technological infrastructure		<u>Revenue Streams</u> Automated / electronic / online payment		

Low-touch Standardized Services

Not everyone's needs are complicated, and there are many individuals and businesses who just need the basics: bookkeeping, tax preparation, and payroll for example. This business model is designed for the customer that wants to just "get it done," and doesn't involve much in the way of advice or personal touch. They sign up online, have a scanner shipped to them with instructions, are setup with their personal web portal, and feed information in. A team receives the data, keeps the records current, runs payroll, and prepares tax returns for e-signature.

Support is handled like a web-service, using support tickets submitted by the customer through HelpScout or Groove, and responded to promptly. A snappy mobile app could also provide project status and communication history logs, so the customer would always be kept informed and up-to-date.

Education Model

<u>Key Partners</u>	<u>Key Activities</u> Video & course development Customer event hosting	<u>Value Propositions</u> Helping understand financial concepts Basic accounting services Connect with business owners	<u>Customer Relationships</u> Personal relational and business network	<u>Customer Segments</u> Those without financial background who want guidance and interaction
	<u>Key Resources</u> Online video database/courses Meeting space		<u>Channels</u> Website	
<u>Cost Structure</u> Content hosting Meeting space costs		<u>Revenue Streams</u> Buy courses on website		

Education and Interaction Platform

At the other end of the spectrum are those who want to interact, ask questions, learn and grow. And the CPA doesn't need to be the sole "trusted advisor," but recognize the power of his customer base. Historically the customer base has been kept from each other, but what if it became a hub of value through interaction? The CPA could have a platform of resource materials on his website like e-books, videos, and blog posts on financial concepts to which customers could subscribe.

But the CPA space also becomes the place where the individual and/or business customers gather to share knowledge and experiences with each other through socials, hosted topic meetings, coaching series, co-working, etc. The CPA provides basic accounting services, and becomes the platform for his customers to connect and succeed.

Startup portfolio

<u>Key Partners</u> Presence in startup community	<u>Key Activities</u> <u>Key Resources</u> All digital systems leveraged across portfolio	<u>Value Propositions</u> Complete financial management Get to stage where exit	<u>Customer Relationships</u> Hi touch Financial coaching in startup concepts <u>Channels</u>	<u>Customer Segments</u> Fast moving startup with limited cash
<u>Cost Structure</u>		<u>Revenue Streams</u> Paid in equity with plan that sufficient # of portfolio will pan out		

Startup Portfolio

The accountant who isn't afraid of risk and loves getting things started can specialize in startups. The one traditional problem of working with this customer group is that they often don't have money. But what if an accountant could spread her risk by taking on a portfolio of customers, and get paid in equity? After making sure the business plans met her exit time horizon, she would be banking on at least one of them panning out, and getting paid quite handsomely. In the meantime, the customers would benefit from a CPA who knows the startup world well, and who could navigate them through the next phase of their journey.

These are just six of the many ideas that came out of our experiment – in the Chain Reaction section you can find out how to access the experiment's raw data, which contains even more ideas generated.

One meta-observation I'll offer from conducting the experiment, is that CPA's have more and more opportunities for what they can do. But this only makes it all the more important for us to be deliberate about what we should do. We can no longer be all things to all people, and our ability to focus our creative energies to specific areas is what will enable us to create better value for ourselves, our teams, and our customers.

EXPERIMENT DESIGN

Hypothesis and Protocol

Experimentation is a powerful force for discovering the new, and for changing the existing.

We recognize the importance of remaining open to the unexpected, but also the benefits of working with a structured approach. For this reason, we've developed The Thriveal Lab Experimental Framework™, a method used by the Lab to conduct our experiments.

Below is the design of this experiment following The Thriveal Lab Experimental Framework™. In the next section, we show how you can continue the experiment with us in the Chain Reaction.

The Thriveal Lab Experiment

Hypothesis

? There will be multiple successful business models for accounting firms of the future. We believe that changing from a singular understanding of what an accounting firm should be, to a vision of a flourishing and varied ecosystem of accounting firm types, will enlarge our ability to create value for all parties in the marketplace.

? Our goal is both: (a) adopting an existing innovation that isn't widely spread yet (we recognize this understanding partially already exists and is developing in the current market), and (b) creating something new that doesn't really exist yet (we believe we can accelerate its adoption and contribute additional ideas to its development).

? Because of its holistic nature, we believe this experiment has the potential to enhance the business model for all parties: customer-side, team-side, supplier-side, and owner-side.

? The factors which have influenced us to form this hypothesis are: The founding of new firms which differ in nature from their predecessors, the decaying value proposition of traditional services being experienced in the marketplace, the development of new technologies which enable possibilities that didn't previously exist, the accelerated radical transformations of industries being observed in the general business environment, and the trend of specialization as a way to achieve new levels of value creation, among others.

? The result we'd like to achieve from our experiment is: (a) spreading the notion that as owners/future owners consider their firm's future, they are not conforming to a singular definition of what it should look like, but that they are free to identify and respond to that part of the market they see needs to be served, and (b) to illustrate accounting firm business models that are appearing on the market now, and imagine those that might appear in the future.

? The before conditions are: (a) a limited recognition of the validity of non-traditional firm structures and models, and (b) a smaller percentage of the market being occupied by such firms. The way we'll know if our hypothesis proves true is: (a) if a motley market of non-traditional firms grows as a greater percentage of the industry participants, and (b) if conversations among accountants acknowledge the diversity and validity of, and even curiosity about, firm designs.

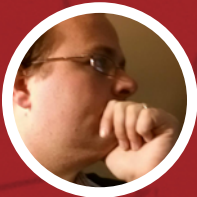
Experimental Framework™

Protocol

- 01** Announce experiment, activate the online sign-up form, and extend the invitation to become a member of Experimental Team.
- 02** Close the experiment sign-ups, narrow the members of the Experimental Team, and confirm via commitment agreement.
- 03** Data Point 1: Mail the Experimental Team copies of *Business Model Generation*, ask them to read Chapters 1 and 2, and to complete an online questionnaire reflecting on business and accounting industry implications.
- 04** Data Point 2: Compile the responses, distribute to the Experimental Team, and ask them to complete a second online questionnaire to reflect on other members' submissions, and to begin ideating business model innovations.
- 05** Compile responses and distribute to the Experimental Team as preparation for the group ideation session.
- 06** Data Point 3: Hold a group ideation session with Experimental Team to brainstorm business model component innovations, new business models, and imagine what accounting firms may look like years from now.
- 07** Obtain feedback from Experimental Team.
- 08** Synthesize results in the Lab Report.

Experimental Team

The members of the Thriveal Laboratory's inaugural Experimental Team are:



Barrett Young
The Green Abacus
Maryland



Chantal Sheehan
Team Holly CPA & Co
Florida



Kevin Garrison
Reardon & Garrison, LLP
North Carolina



Bryan Coleman
Bryan J. Coleman, CPA
Massachusetts



Jason Blumer
Blumer CPAs
South Carolina



Adrian G. Simmons
Elements CPA, LLC
Maryland

CHAIN REACTION

Your Turn in the Lab Coat

This experiment doesn't end here: it's intended to begin a conversation on how we can evolve our business models to adapt to the demands and opportunities of the future. The market needs us to do so, and we need each other to accomplish it.

At our website, you can access the raw data of this experiment: the Experimental Team's responses to Data Point 1, Data Point 2, and the whiteboard and other content from Data Point 3. Pouring through it, you'll find a lot more idea sparks that we weren't able to include here.

Combined with your own creativity, it becomes the fuel for conceiving something new. You may want to follow our protocol and conduct the experiment with a group of your peers. You may want to schedule some time of your own to sit down and re-imagine your own practice, or what it would look like if you started fresh today. You may have an idea for a pivot point to the experiment, where you want to modify the protocol and take it in a different direction to see where it leads.

You may want to take part of your practice, and apply one of the models prototyped. You may even want to launch a new firm using what you see here or develop from its raw materials.

The experiment is now yours, but you are not alone. When you contribute your ideas and experiences back into the Thriveal Lab community, you'll be granted access to what others have shared too, and in that way perpetuate a chain reaction of experimentation that grows and gains energy to change for the better. Simply look for the Self-experiment Initiative links on our website to submit an experiment design and/or report your results, and we'll send you access credentials to the experimental database.

And by participating at any level in Experiment 1, you'll automatically get access to the full Lab Report and raw data for Experiment 2, coming soon.



ABOUT THE LAB

Our History and Partners

Profile

The Thriveal Laboratory was co-founded by Jason M. Blumer and Adrian G. Simmons as a way to lower the barriers to innovation in the accounting industry by encouraging strategic risk-taking. Its purpose is to accelerate the adoption of today's innovations, and contribute to the imagining of tomorrow's.

To achieve this mission, the Lab focuses its efforts on four areas:

- **Fostering an experimenter community**
- **Conducting experiments**
- **Building an experiment database**
- **Cultivating an experimentation mindset in the profession**

Lab Partners

The work of the Thriveal Laboratory is made possible entirely by its Lab Partners. Lab Partners are those industry members who are committed to creativity and experimentation in our profession, and back that commitment with funds.



Chief among them is our Strategic Partner, Xero, who are revolutionaries in their own right, and who share in the vision of the Lab for changing the landscape of the profession for the better.



And early pioneers joining with us from among the accounting firm community are The Green Abacus and Blumer CPAs. They also see the deep need and real possibilities that come from practical research and development into how accounting is practiced.

Be a part of the Thriveal Laboratory

We continue to grow in size and momentum, and we invite you to become a part of the Lab too. At our website you can:

- ✱ Become a Lab Partner
- ✱ Submit experiment ideas
- ✱ Learn more about the Lab
- ✱ Sign up for an invitation to the next Experimental Team
- ✱ Participate in our Self-experiment Initiative
- ✱ Sign up for our updates
- ✱ And more...



Simply visit us at
www.thriveal.com/lab



Goggles on!

"In the few weeks of our experiment, I came up with 2-3 things I could implement within my own firm. Immediate payoff. The Lab provided clarity and impetus to act."

- Barrett Young

"DO IT. I was intimidated to join this experiment, wondering if I could really add value to it compared to some of the more adventurous minds...It was an amazing experience and I am so glad I got to contribute. I would do another experiment in a heartbeat."

- Bryan Coleman

www.thriveal.com/lab