



CommBank Accounting Market Pulse.

Conducted by Beaton Research + Consulting

May 2016 (Wave 2 FY16)



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Diversification push underway



Marc Totaro

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It is my pleasure to present the second-half edition of the CommBank Accounting Market Pulse for FY16, conducted in partnership with Beaton Research + Consulting.

What stands out is how effectively accounting firms are responding to their business environment. The survey, which captures a cross-section of the top 100 accounting and restructuring firms, highlights the array of strategies they are implementing to add value to their clients and grow their own firms.

Diversification is a common tactic, with a sizeable percentage intending to enter and grow in new service lines over the next 12 to 18 months.

Management consulting services is the preferred area of expansion for many large and mid-sized accounting firms, as well as restructuring firms. The latter two groups also see increased opportunities in business advisory and property advisory services. Other firms plan on entering wealth management and financial planning.

This diversification push means the chase for acquisitions continues. Firms are after strategic bolt-on assets to gain capability in niche areas like human resources, taxation law and water asset management advisory.

More immediately, the greatest short-term growth in revenue is expected to come from economic and social policy advice, tax consulting and wealth

management, and financial planning. The jump in tax consulting, from fifth place in our last survey to its current ranking of equal second, may reflect the approach of the financial year-end while all three levels of government are increasingly attractive given their stability. Governments still seek assistance with commercialising their services.

Lifting productivity is another lever being pulled. The three largest areas of expense growth over the next six months remain staff training and development, investing in IT hardware and software, and a focus on marketing and business development.

The productivity push and expansion into new service lines partly explain why firms, with the exception of the very largest, forecast increased operating margins in coming months.

Another survey finding is that firms are hiring more equity partners, junior to mid-level accountants, directors, managers and fixed share and salary partners. In contrast, the head count of secretarial, administrative and shared service staff is still falling, a trend we expect to continue. The ratio of fee earners to non-fee earners is climbing.

These strategies to lift revenue are complemented by an increased propensity to outsource activities to lower cost providers. Large firms, with exposure to global trends, lead the way with 80 per cent frequently outsourcing work. Smaller firms are watching and waiting, with 74 per cent rarely or never outsourcing. Nevertheless, the accounting profession is years ahead of other professional services providers in riding the outsourcing and offshoring wave to improve profitability.

CommBank's Accounting Market Pulse presents the profession's latest views and trends, making it a useful tool for business planning and benchmarking. We look forward to continuing to monitor key financial and operational performance indicators within the industry and sharing these insights with you.

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Economic outlook



Michael Workman
Senior Economist
Commonwealth Bank

The Australian economy continues to work its way through a transition away from mining-driven growth towards stronger outcomes from residential construction and the services areas of tourism, accommodation, health and education. The varying outcomes across the business sectors and the employment market reflect these shifts.

In our view, the domestic economy has strengthened in the past six months, with overall real growth finishing the year at 3 per cent, in line with the longer term average. A significant proportion of that growth came from higher goods and services export volumes. But there were also solid contributions from stronger household spending trends, particularly in the services areas like health, education and tourism.

The CommBank Accounting Market Pulse indicates that accounting firms are slightly less optimistic about future business conditions in the current survey than the previous one. They are also less positive on the 12-month and two-year outlooks for their firms.

The national employment market has expanded reasonably firmly over the past year and the unemployment rate is near 5.8 per cent, which is well below the rates of early 2015. Jobs growth has mainly been in the larger states of New South Wales, Victoria and Queensland over the past year. The combination of very low mortgage rates and a residential construction boom is beneficial

for the jobs market across a number of sectors in those states. The lower Australian dollar is lifting the currency exposed sectors of the economy. Low interest rates look set to stay in place over the coming year. Inflation remains low and there is little sign of change in the trend towards quite weak national wages growth.

In our view, the background conditions for the economy are likely to remain quite mixed through the coming year. The lack of a consistent theme of uniform improvement in overall growth tends to promote a greater degree of caution than otherwise would be the case. Even though interest rates remain low by historical standards, there is still considerable caution on the part of businesses and households in terms of investment and spending decisions.

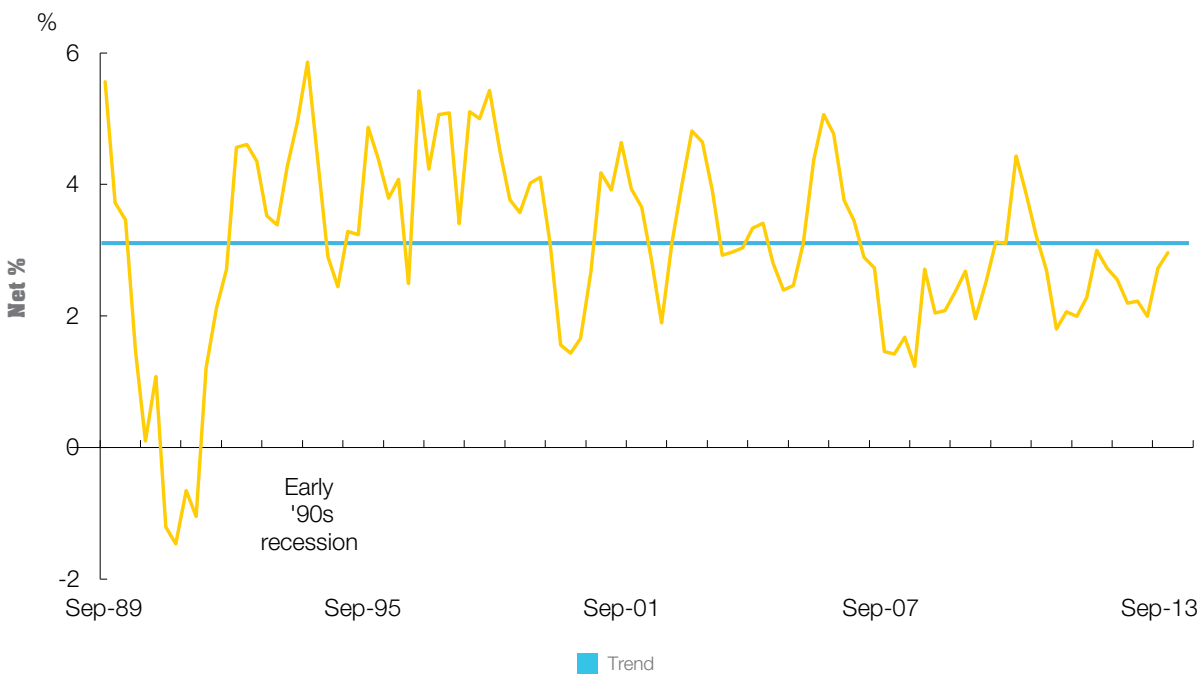
The higher levels of business caution are likely to mean the emphasis on various measures to control costs, and even reduce them, will remain paramount. Relatively low national wages growth reflects the trend to both limit staff cost growth and lift productivity. The other challenges in the firms surveyed include collecting invoices, negotiating prices charged to clients and recruiting and holding quality staff. These issues are not just a local phenomenon. They are regularly covered in global business magazines. When growth in the market slows, there needs to be a much more concerted control over expenses to maintain a profitable business.

Overseas influences on the local economy will remain important over the rest of the year. Australia's major trading partner, China, is also progressing through a transition towards more consumer spending driven growth. The change will present Australian businesses with new opportunities because part of it involves much higher numbers of Chinese tourists coming to Australia. They will also be interested in investment possibilities in parts of the local economy, like tourism, accommodation and all forms of property. So while there be some doubts about the future of Australia's mineral exports to Australia, there are significant growth opportunities for other sectors if China's transition succeeds.

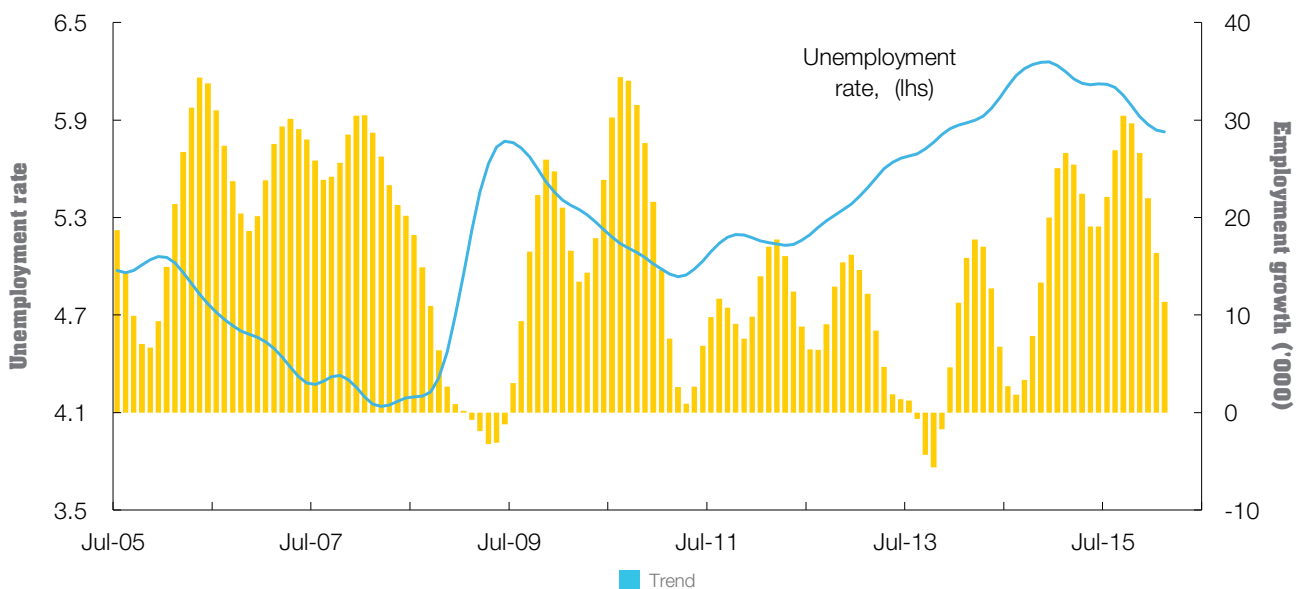
The Australian dollar can be seen as barometer of how China's economy is performing. The Australian dollar's recent shift to higher levels reflects not only a weak US dollar, but also a clear pick-up in global commodity prices like iron ore and oil. That is principally because the news on China's economic outlook has become more optimistic but it also reflects reduced oversupply

concerns. For exporters, the higher Australian dollar is not such good news. But we do not see it returning to the very high levels of a few years ago. We believe the dining and tourism booms can proceed as China's demand grows and the Australian dollar stays near current levels.

Real GDP (annual % change)

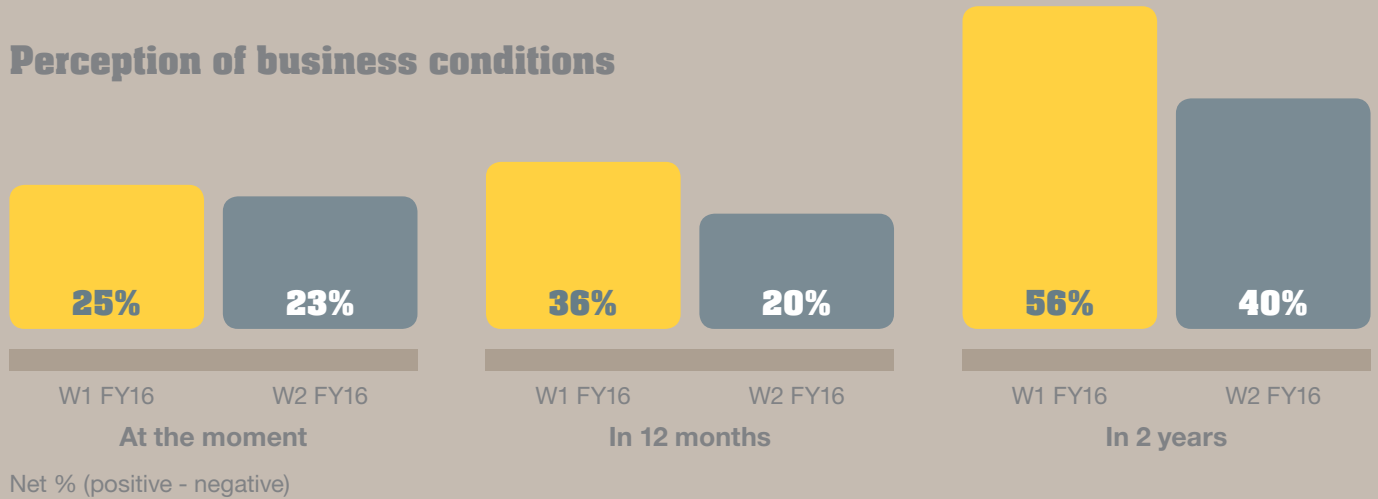


Labour Market Trends

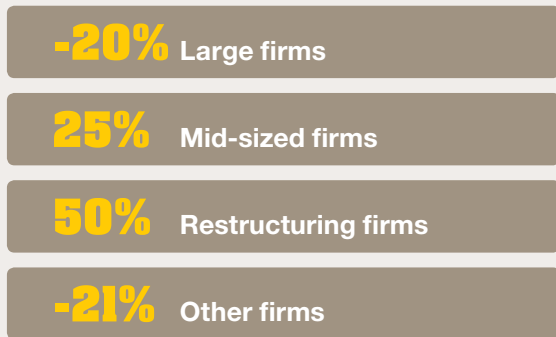


Snapshot of survey findings

Perception of business conditions



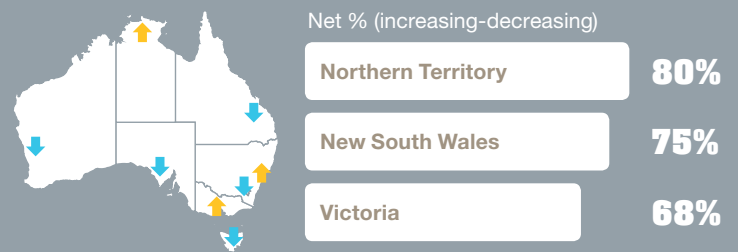
Perceived performance of Australian economy



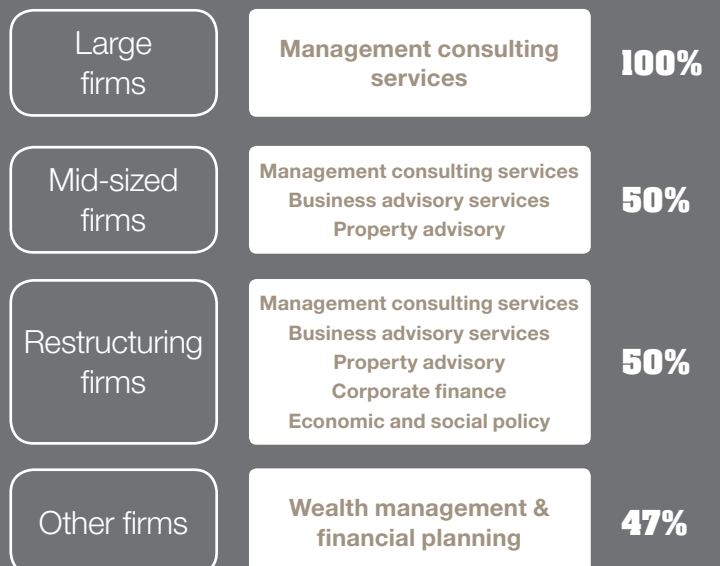
Top 3 business challenges for accounting firms



Geographic areas with highest revenue growth expectations



Main service lines to enter and grow in the next 12 to 18 months

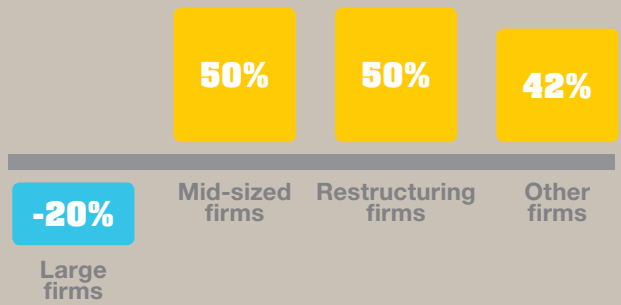


Outsourcing of work over the next 12 months



% who think it will increase

Operating margins forecast



Net % (increasing-decreasing)

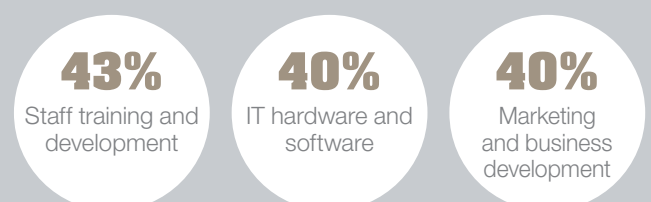
The majority of Accounting firms forecast an increase in outsourcing work over the next 12 months.

Top 3 areas of increased revenue over the next 6 months



Net % (increasing-decreasing)

Top 3 areas of increased expenses over the next 6 months



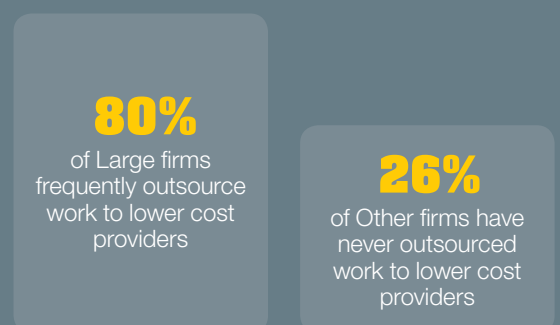
Net % (increasing-decreasing)

Staff numbers



- Equity partners
- Junior to mid-level accountants
- Directors / Managers
- Fixed share / salary partners
- Shared service staff
- Secretarial and administration staff

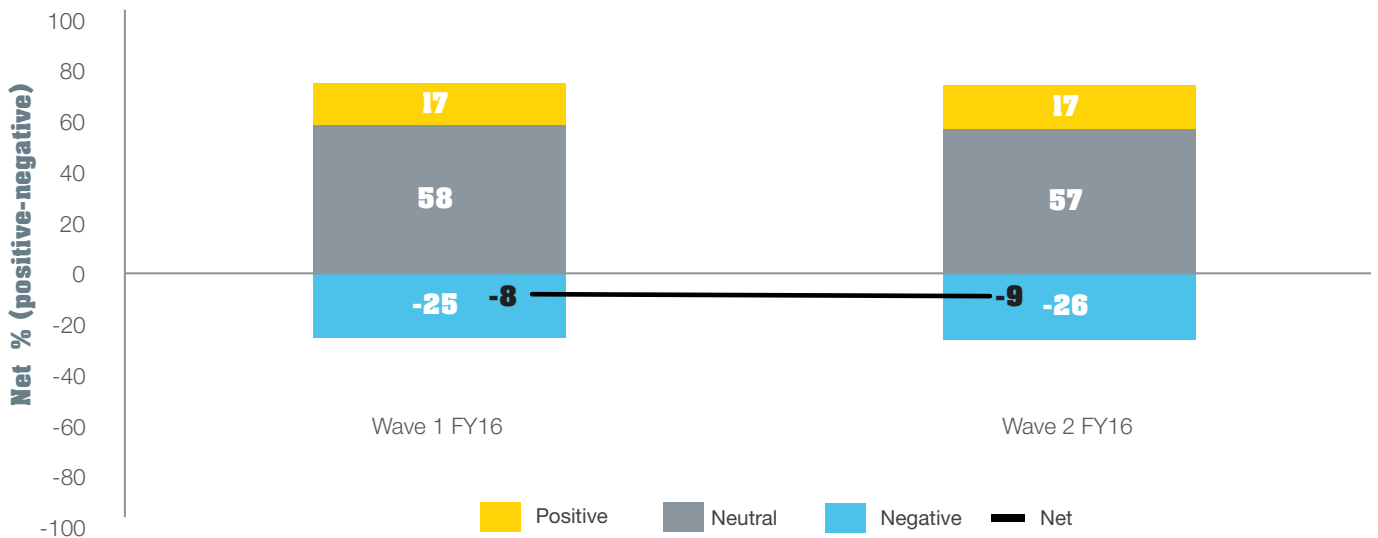
Outsourcing to lower cost providers



Business conditions

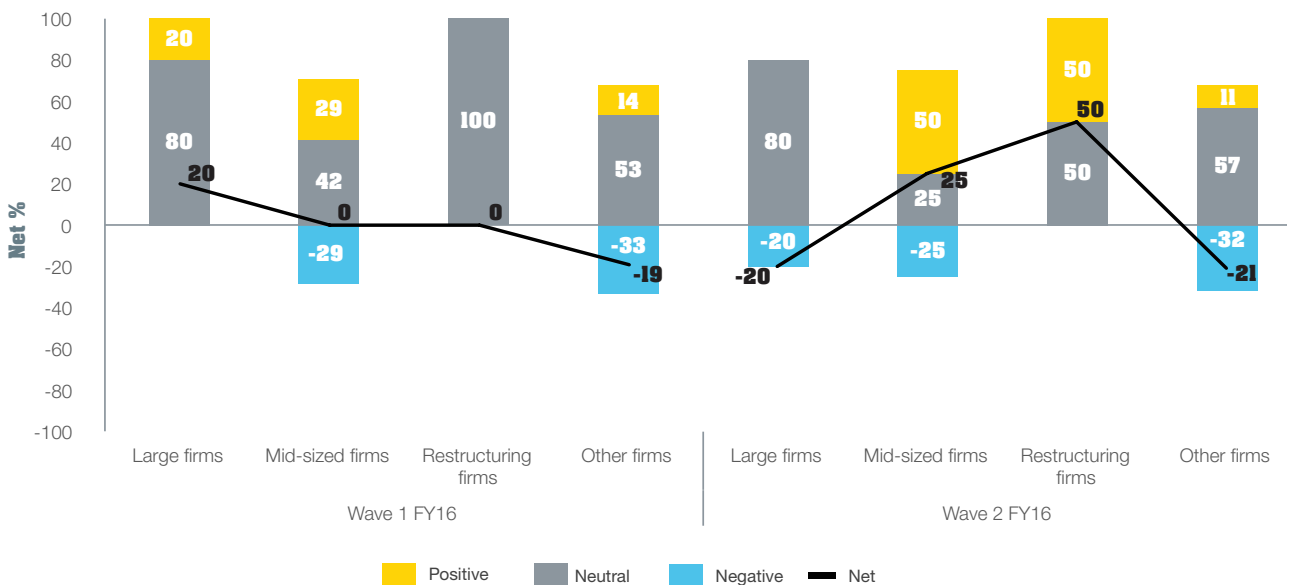
Perceived performance of the Australian economy

Perceptions of the Australian economy remain slightly negative among Australian accounting firms.



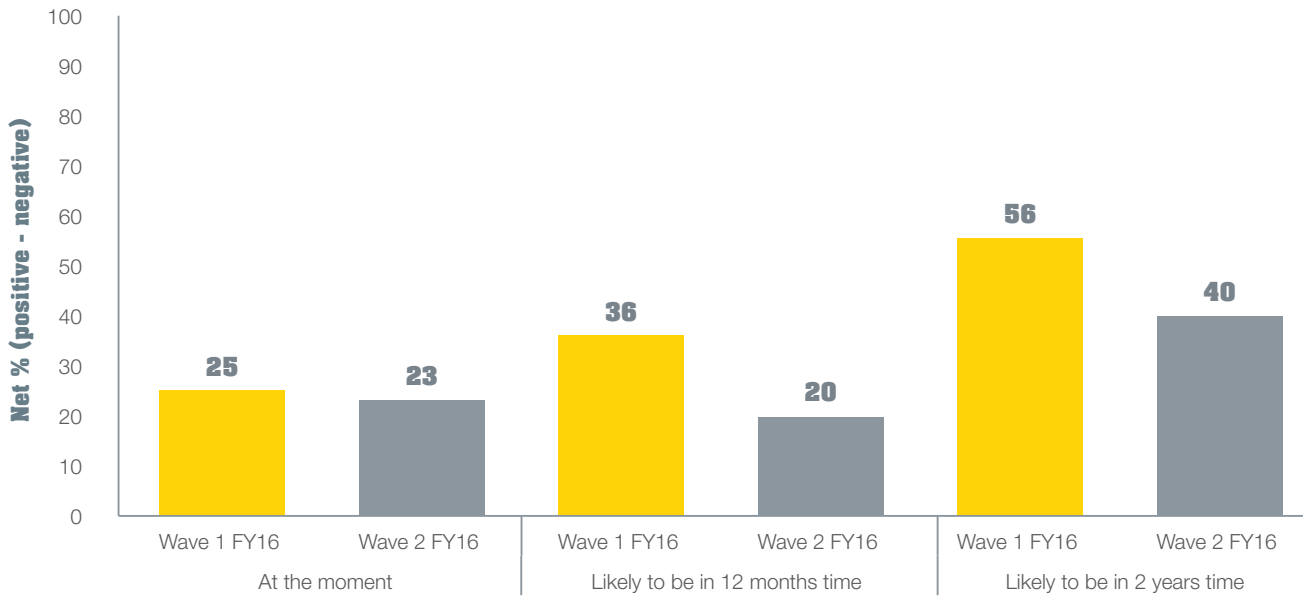
Perceived performance of the Australian economy by segment

Leaders of Large, Mid-sized and Restructuring firms are all less optimistic about the economy compared to previous wave.



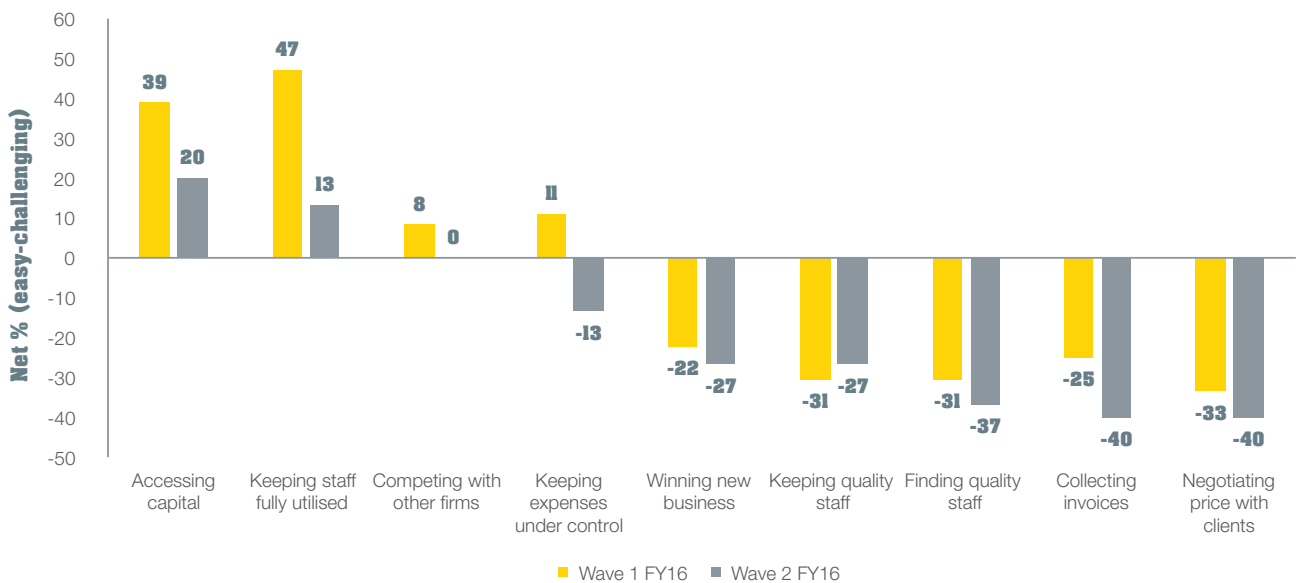
Perception of business conditions for Australian accounting firms – present to 2017

Accounting firm leaders are more optimistic about current business conditions compared to six months ago, and they remain confident across the long-term.



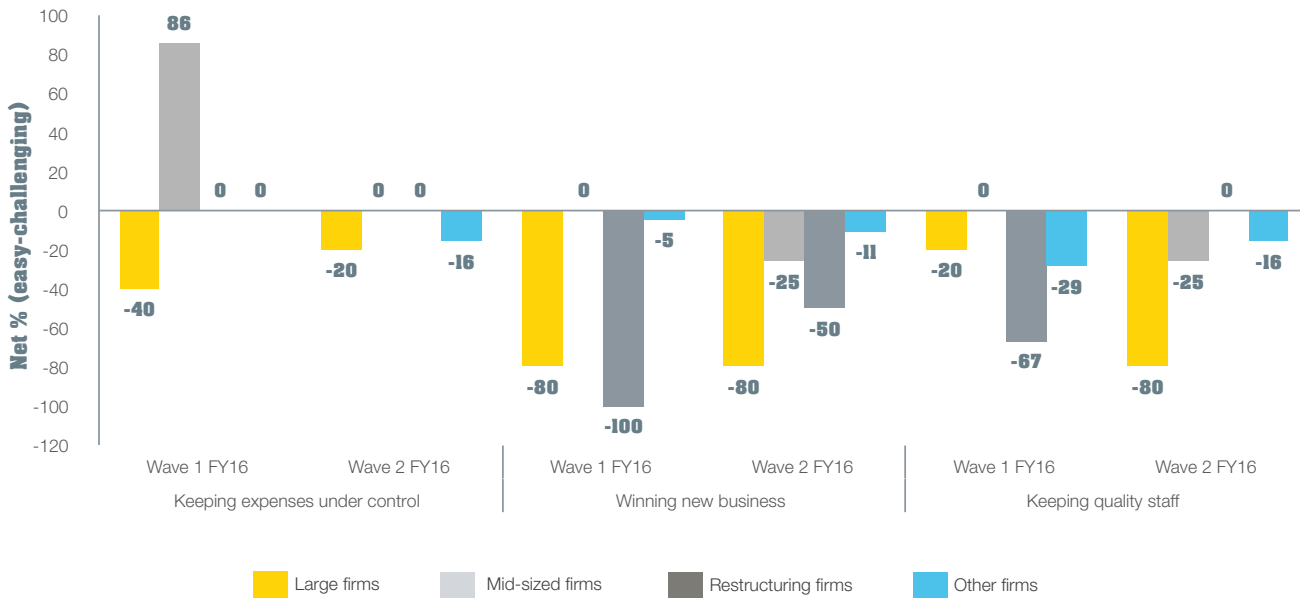
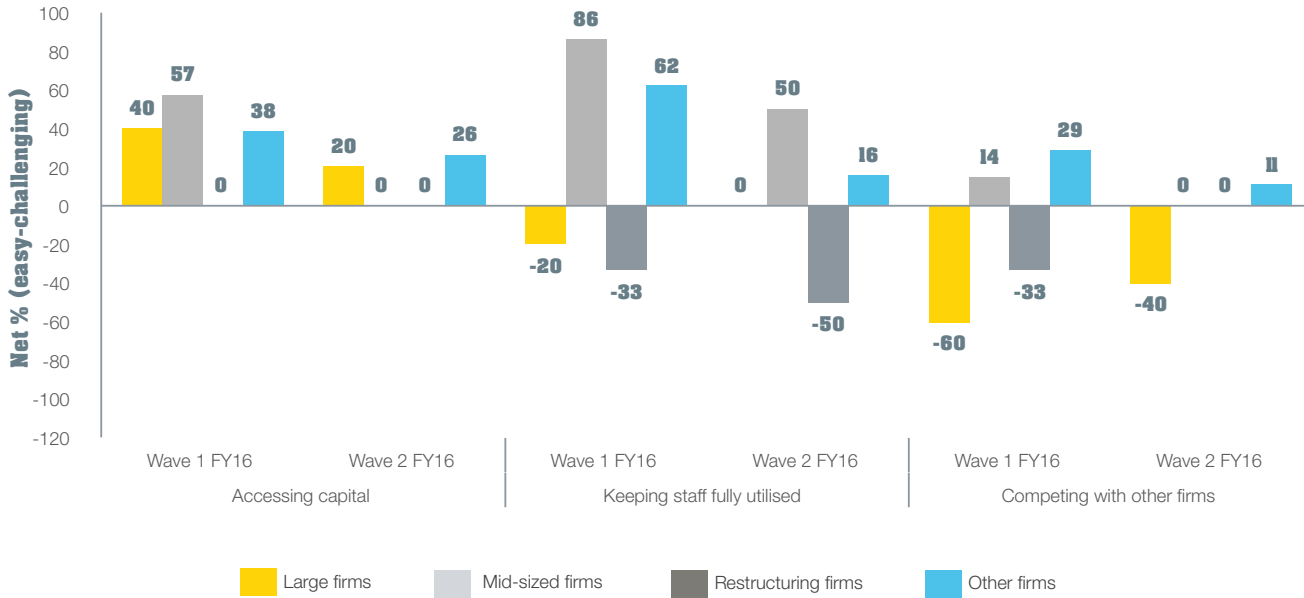
Perception of business conditions by area

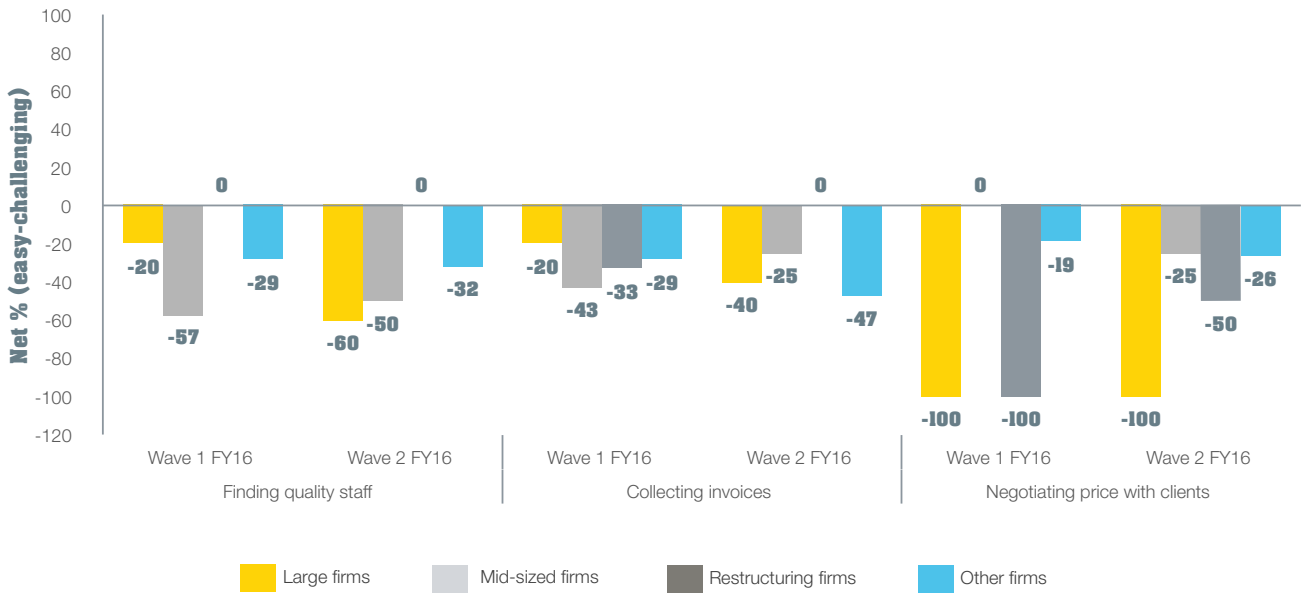
Price negotiation, collecting invoices and finding quality staff are considered the primary challenges in the current market conditions.



Perception of business conditions by area and firm type

Large firms are finding it most challenging to win new business, negotiate price with clients and compete with other firms.





What firms are doing to address the main challenges



Negotiating price with clients

“Focus on advisory versus compliance, with differentiated service offerings. Value based pricing options.”

– Partner, Large firm

“Emphasising value over price; focusing on needs not cost; offering flexibility - phases of work, multiple decision points, high or low spec options where feasible.”

– CEO/Managing Partner, Restructuring firm

“Increasingly fixing fees for repetitive work specials by negotiation with frequent communication on progress. High level of communication and transparency around fees.”

– CEO/Managing Partner, Other firm

“Fixed fee arrangements with client with out of scope work done by an hourly rate.”

– CEO/Managing Partner, Other firm

“Being upfront but identifying as soon as possible where problems/overruns are being met; guaranteeing fee level.”

– CEO/Managing Partner, Other firm

“Discussing value and focus on getting scope right.”

– Partner, Restructuring firm

“Significant increase in training for partners and directors re pricing discussions, and consultative conversations.”

– CEO/Managing Partner, Large firm



Keeping quality staff

“Improving engagement; connecting them to our purpose and strategy, increasing training opportunities.”

– Chief Operating Officer / General Manager, Large firm

“Continue winning interesting, challenging projects. Not tolerating under-performance. Maintaining benefits.”

– CEO/Managing Partner, Restructuring firm

“Looking at the different levels of engagement with these people. Conducting career interviews to see that they are in line with the direction of the firm. Greater open communication. Flexibility in working hours. Providing HR support through consultants.”

– CEO/Managing Partner, Other firm

“Introducing a training continuum to raise train and sustain key staff.”

– CEO/Managing Partner, Mid-sized firm

“We keep quality people as we offer a great and engaging workplace, above market pay and great conditions. Many social functions and activity, lots of staff training, get the culture right and keep it right.”

– CEO/Managing Partner, Other firm

“Targeted talent development, wellness and work-life balance programs. Focus on diversity and gender equality.”

– Partner, Large firm



Finding quality staff

“Using recognized third parties to manage organic growth and target specialists and push our value proposition to bring in experienced staff.”

– CEO/Managing Partner, Mid-sized firm

“Using sign on bonuses. Also employing earlier whilst they are undertaking their degrees to ensure we dont loose out to competitors.”

– CEO/Managing Partner, Other firm

“Continuing focus on internal referrals.”

– CEO/Managing Partner, Large firm

“Expanding recruitment beyond being a function of HR.”

– Partner, Restructuring firm

“Focus on graduate recruitment, presenting firm culture and flexible working conditions. Also focus on brand and international affiliations.”

– CFO, Other firm

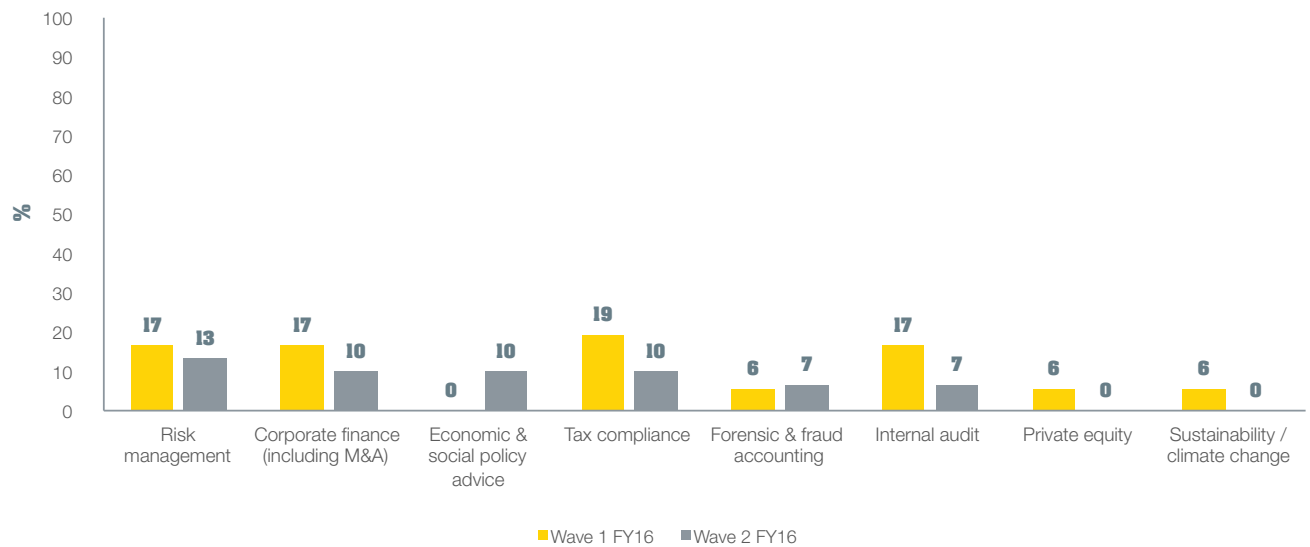
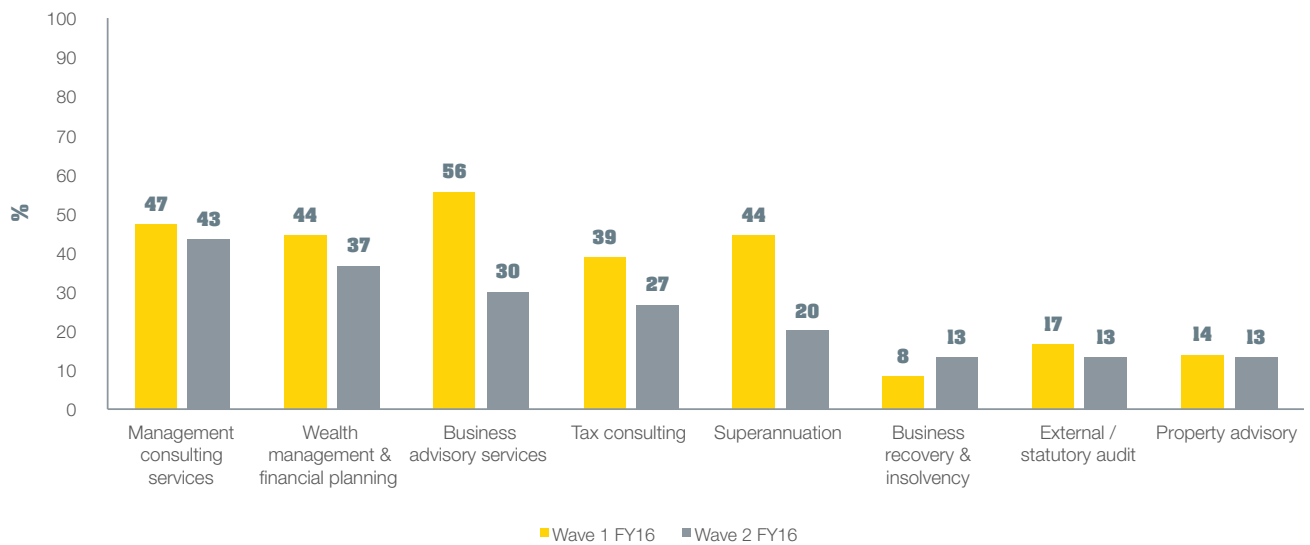
“Attending university open days, attending career nights with accounting bodies, becoming an employer of choice.”

– CEO/Managing Partner, Other firm

Business priorities

Market entry planning and growth

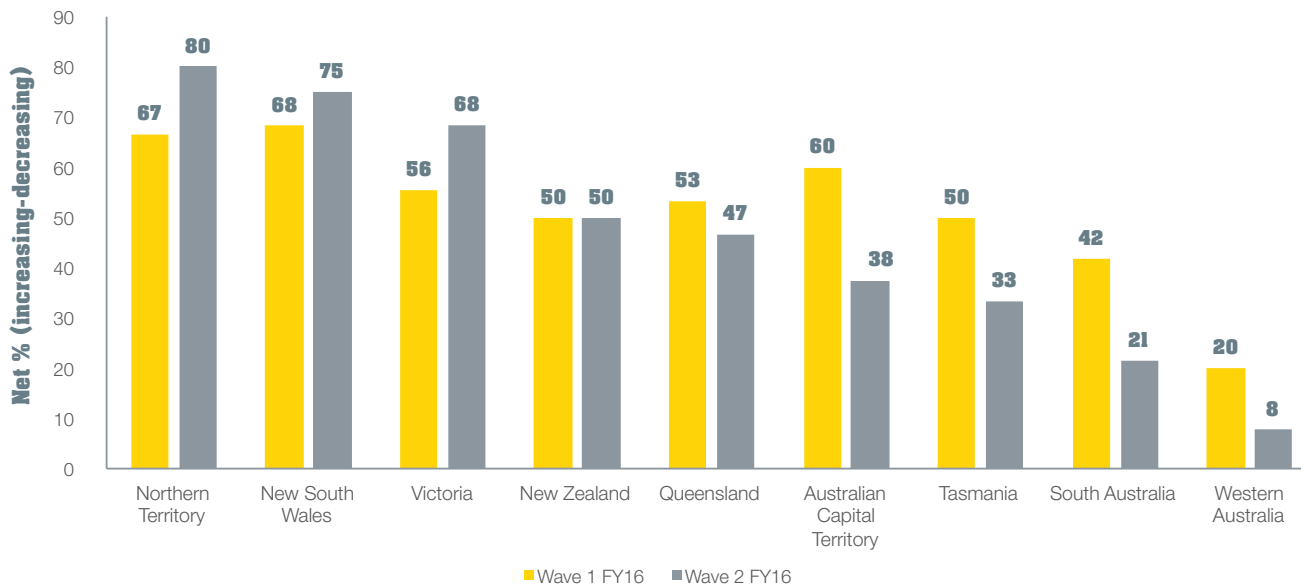
Management consulting, wealth management and business advisory are the primary areas of market growth over the next 12 to 18 months.



Revenue predictions

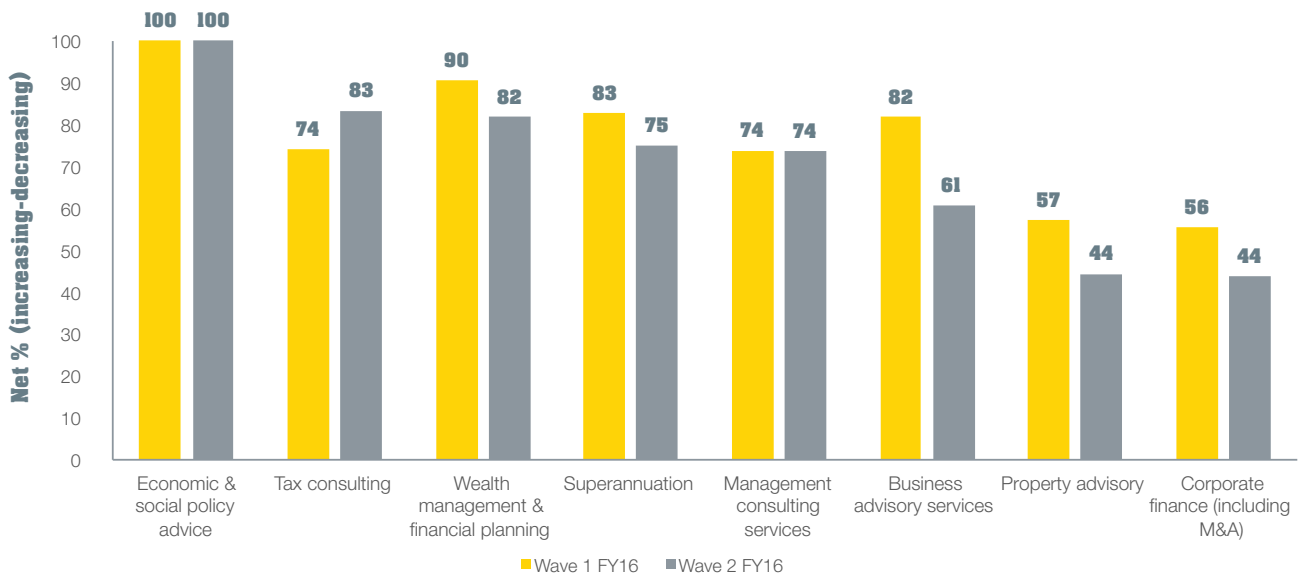
Changes in revenue by location over the next 6 months

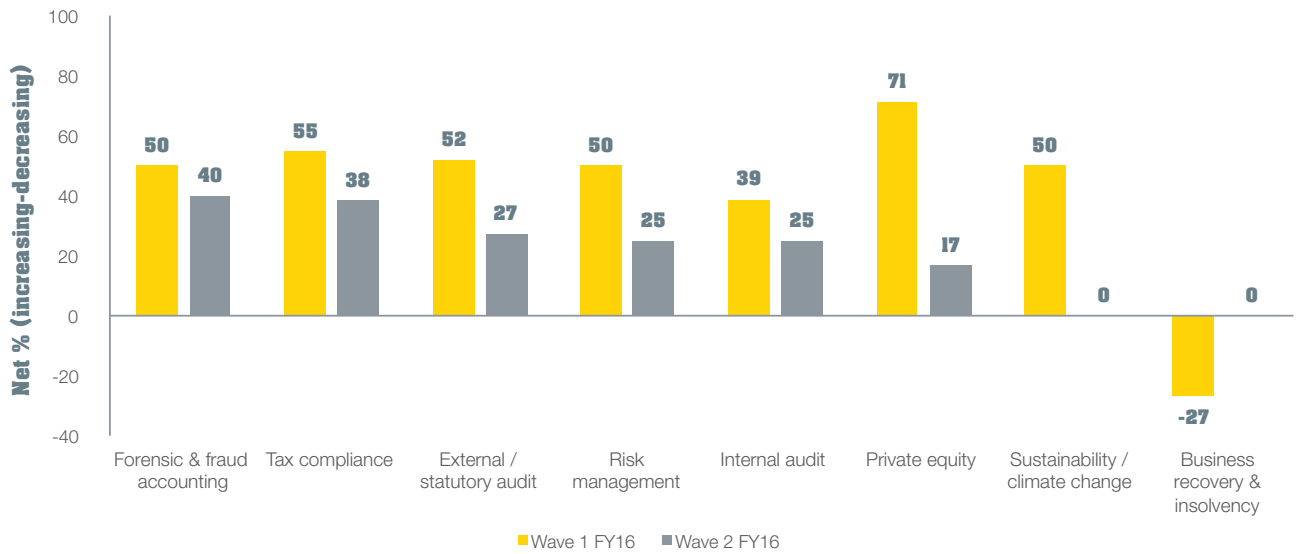
Firms net forecast for total revenue in New South Wales, Victoria and Northern Territory have increased, while forecasts in other states and regions have dropped or remained flat.



Changes in revenue by service line over the next 6 months

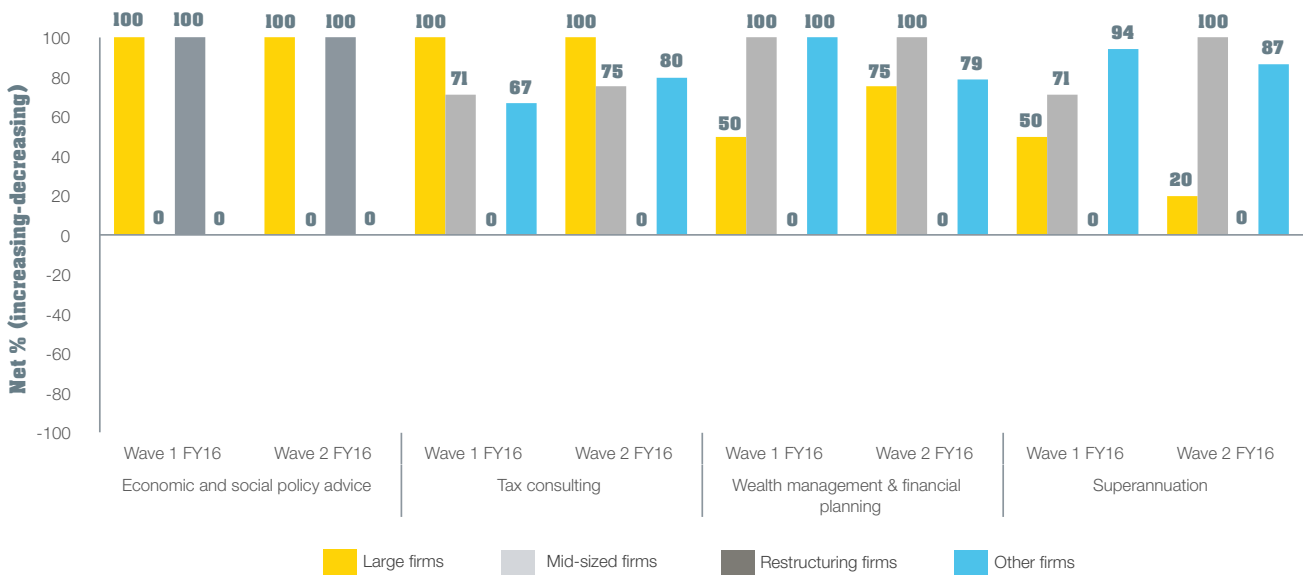
Economic & social policy advice, tax consulting and wealth management & financial planning service lines are expected to have the greatest increase in revenue.

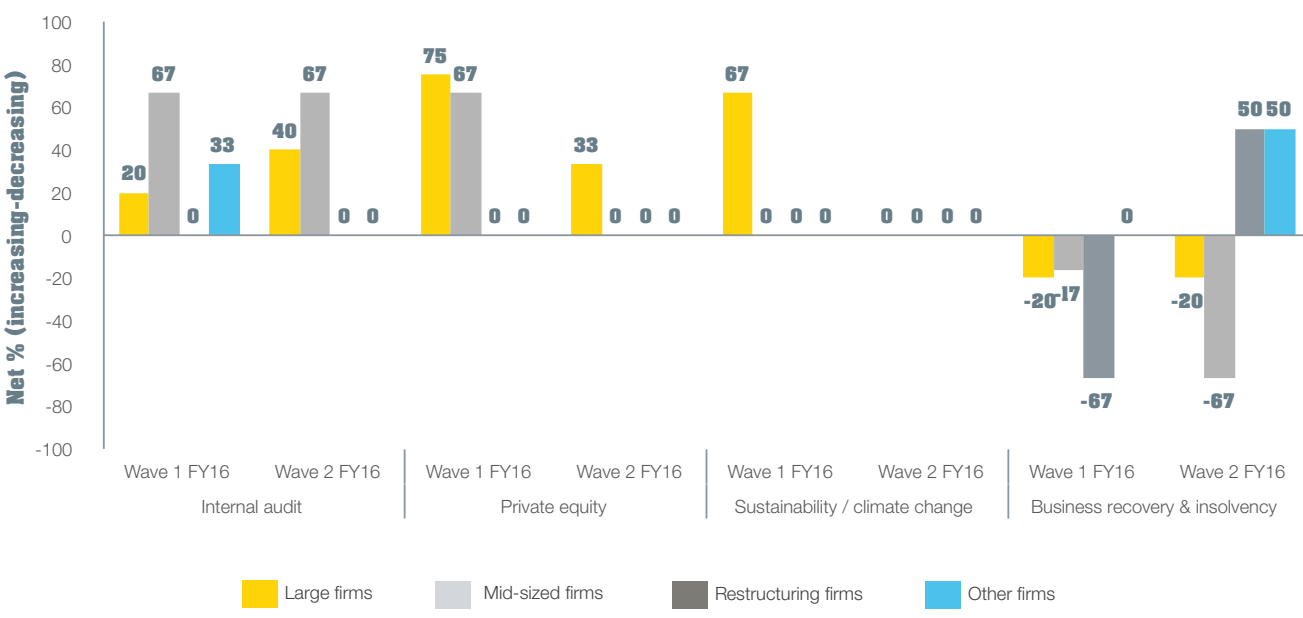
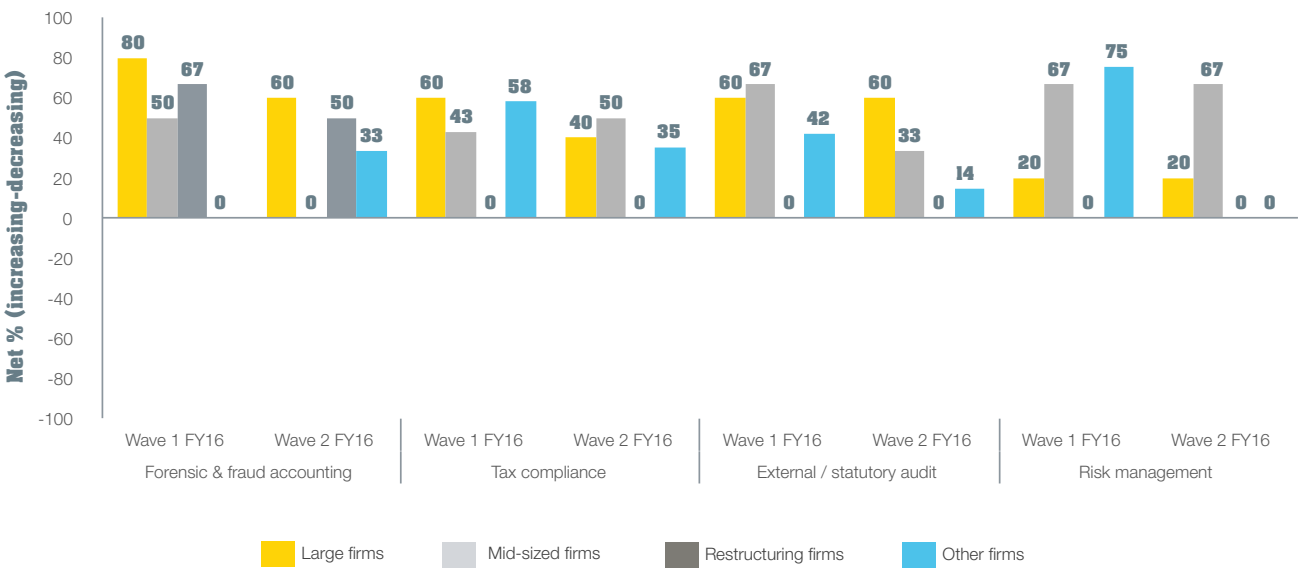
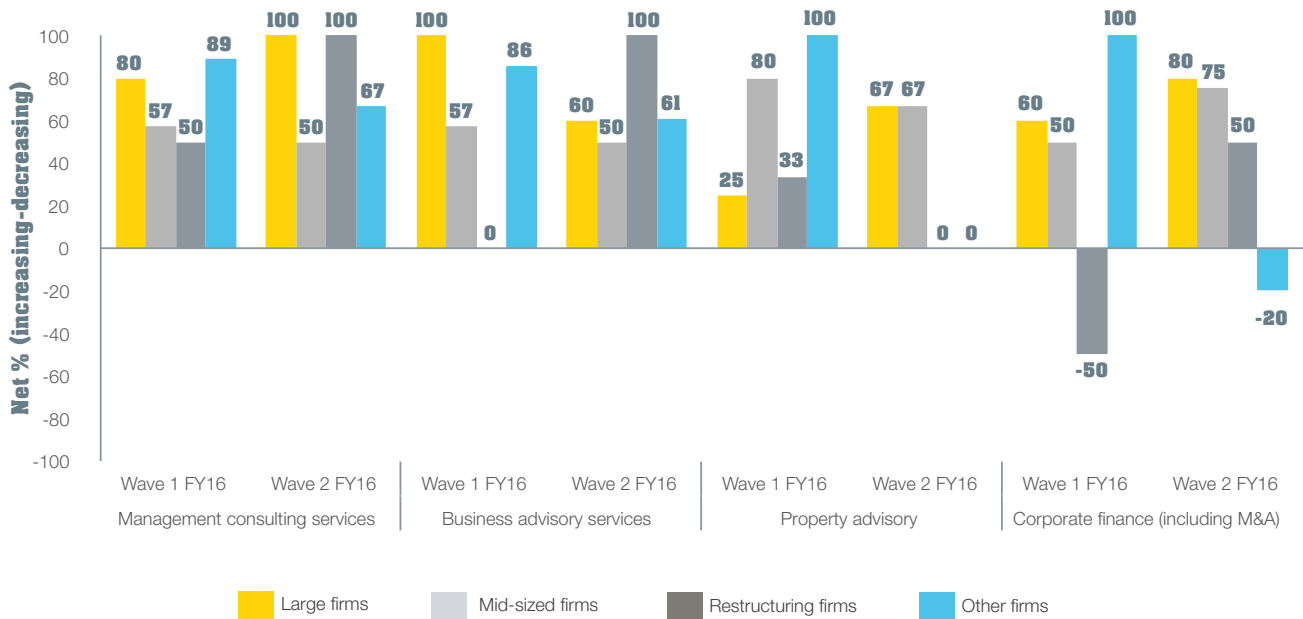




Changes in revenue by service line and firm type over the next 6 months

Other firm leaders forecast a net decrease in revenue in corporate finance in this wave, while leaders in large firms and mid-sized firm forecast a net decrease in business recovery & insolvency

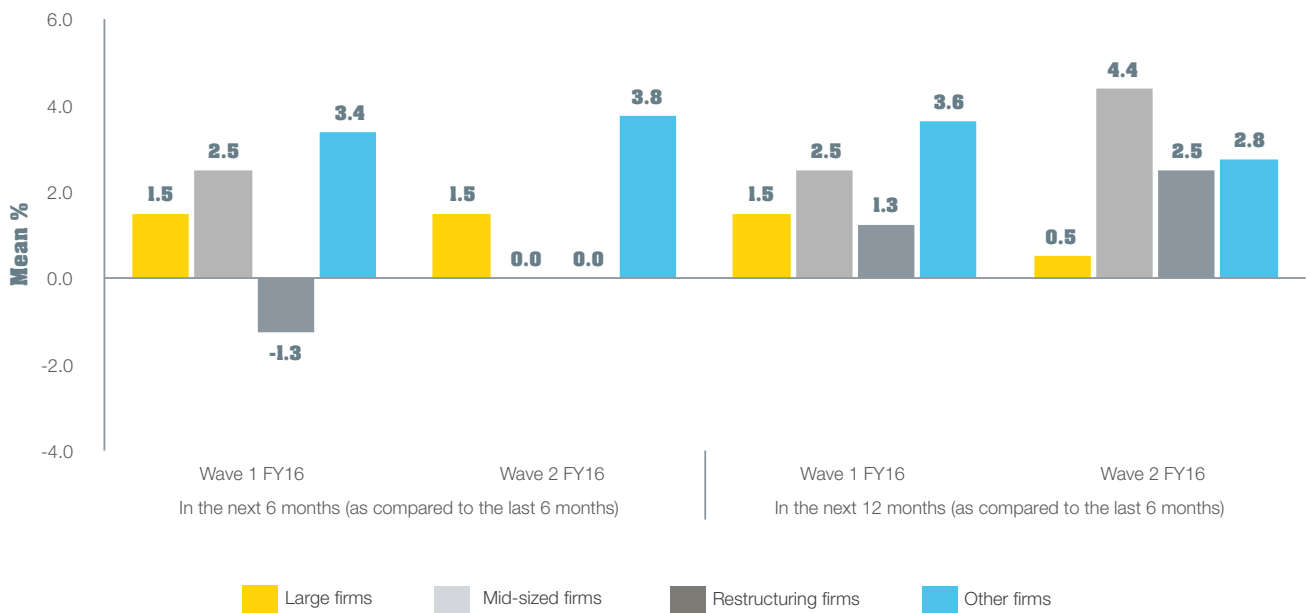




Realised rates

Expected changes in realised rates over the next 6 and 12 months

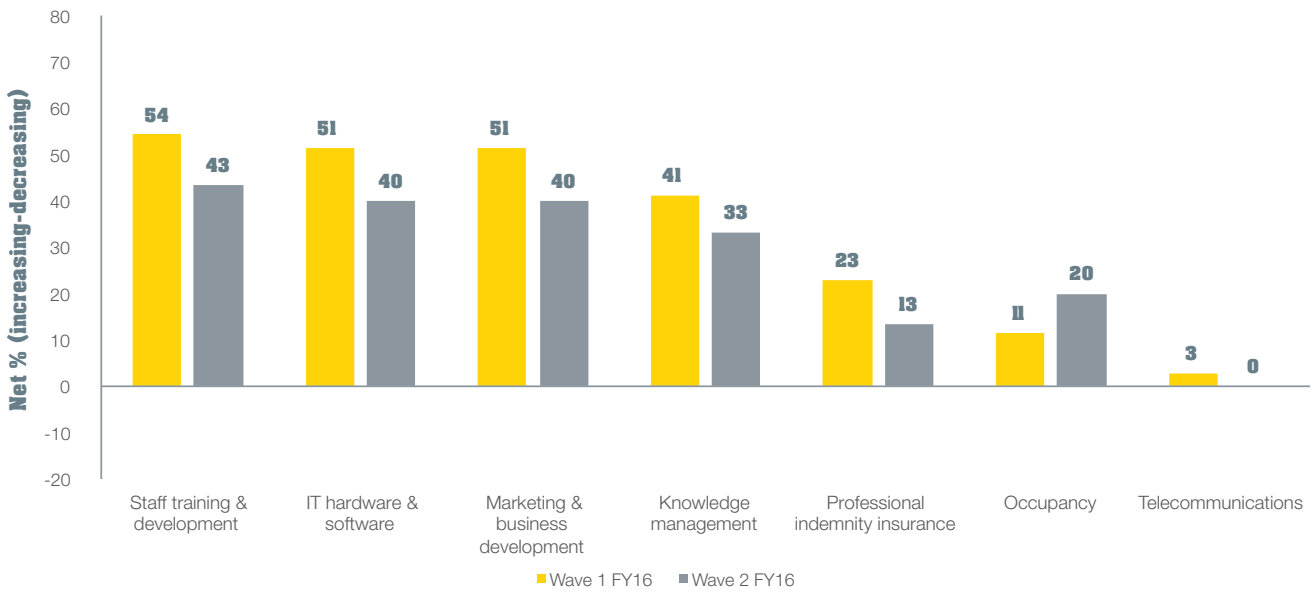
Compared to the last report, Restructuring firms now have a more optimistic view on realised rates.



Expense and profitability predictions

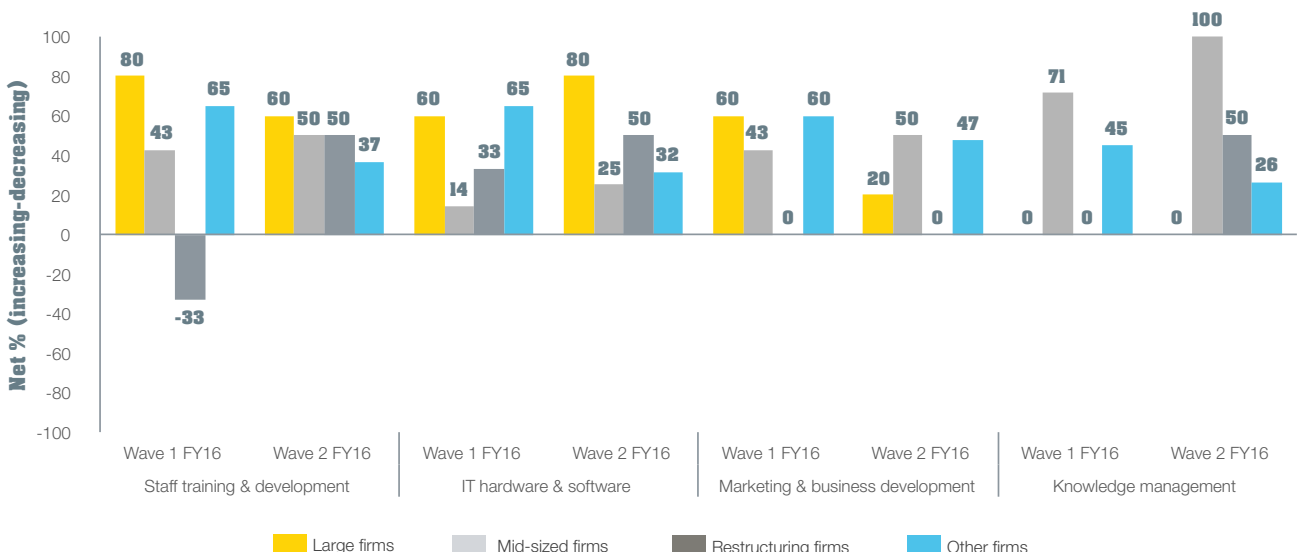
Changes in expenses over the next 6 months

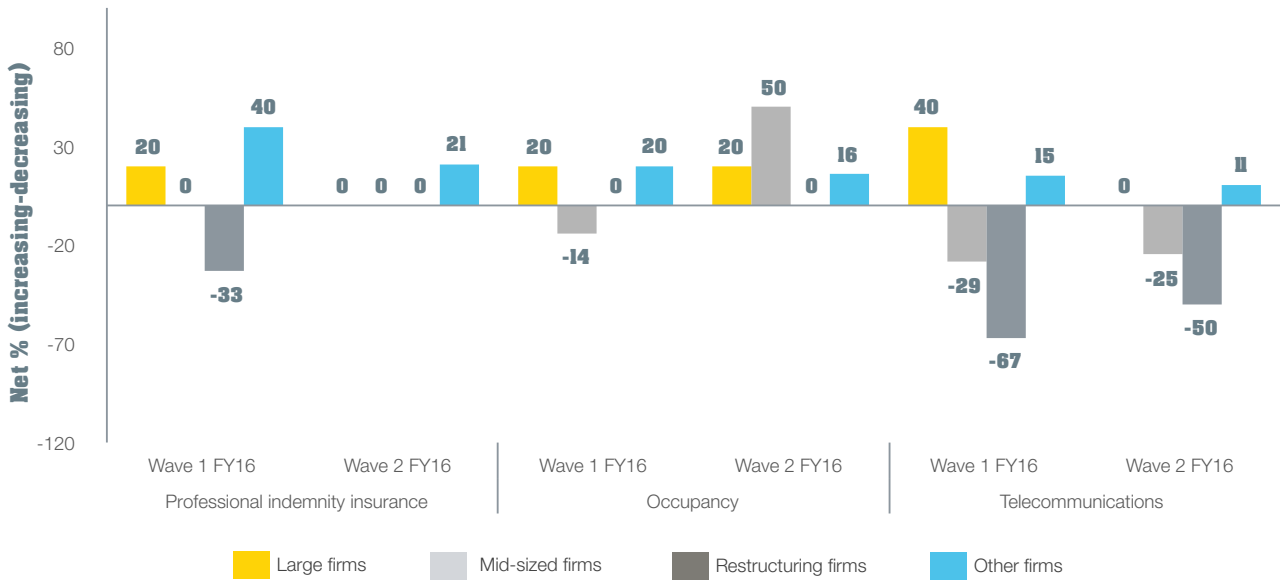
Accounting firm leaders continue to prioritise staff training and development, IT hardware and software and marketing and business development.



Changes in expenses by segment over the next 6 months

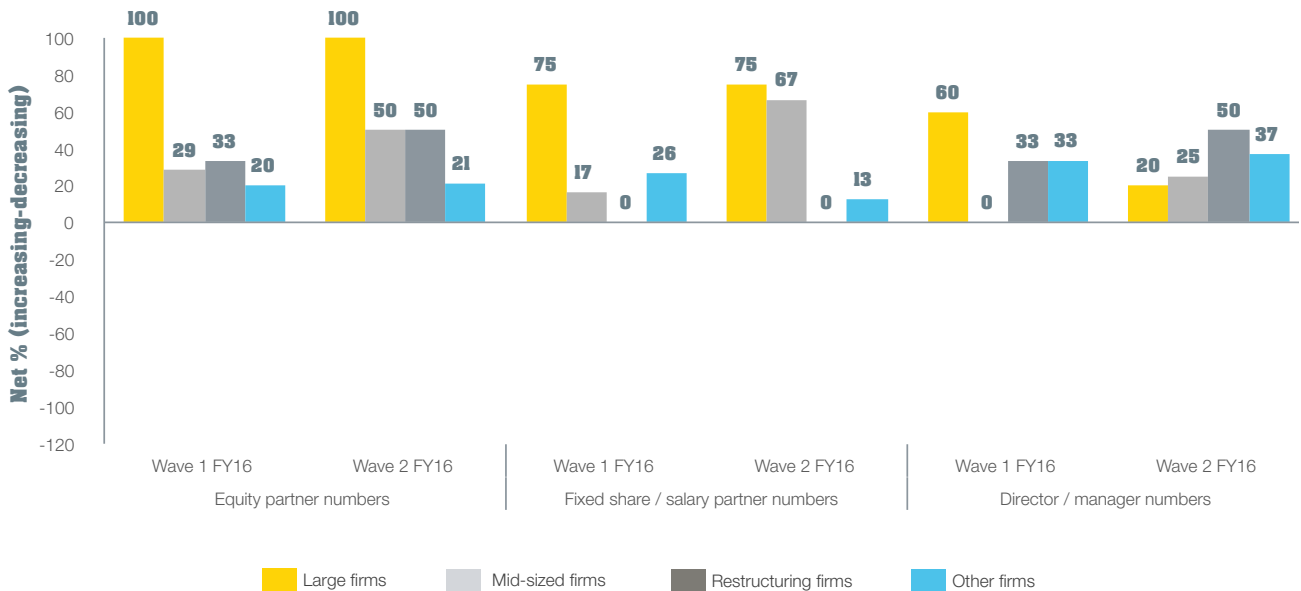
The main focus for Large firms for the next 6 months is on IT hardware and software and staff training and development, while for mid-sized firms, the main focus is on knowledge management.

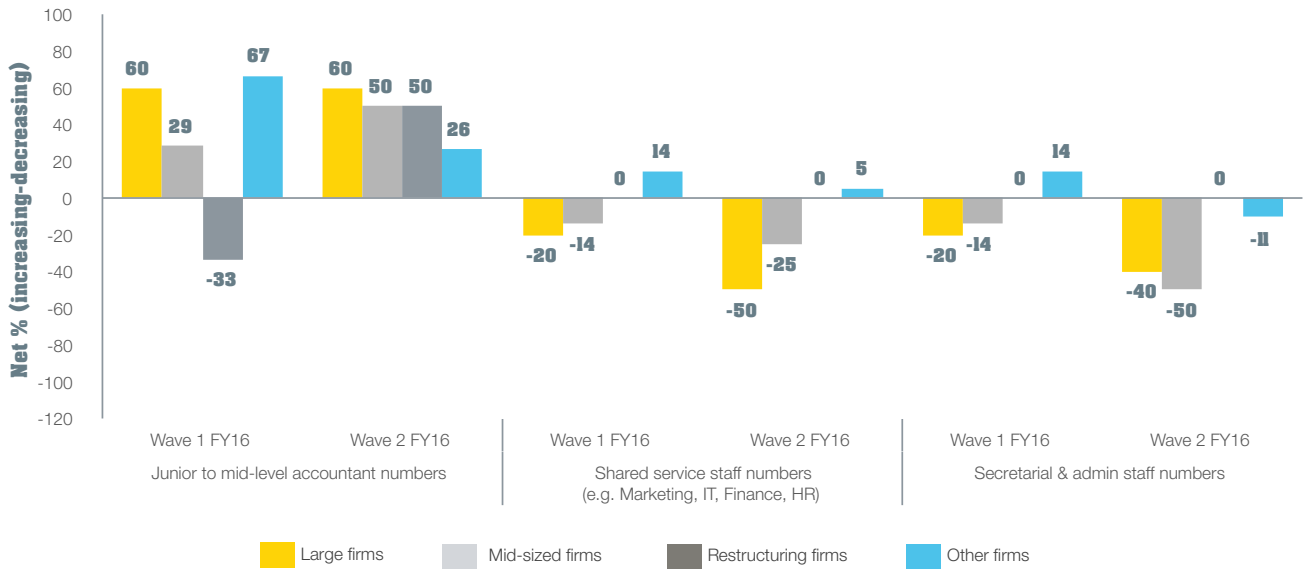




Changes in staffing by segment over the next 6 months

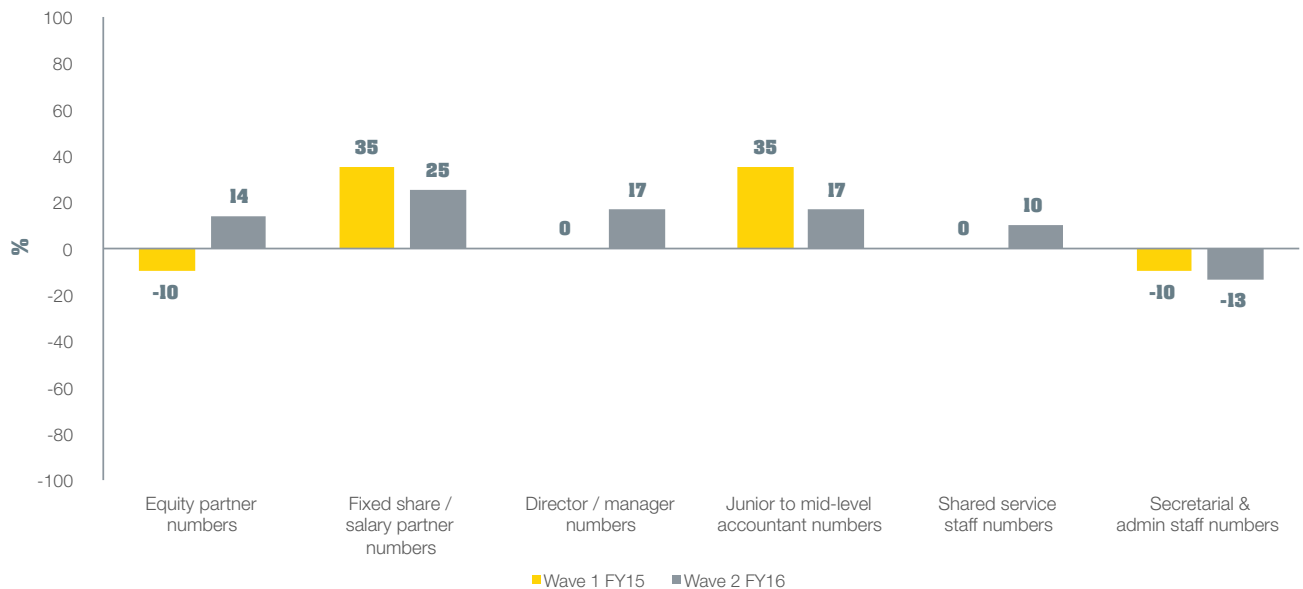
Large firms forecast the highest net increase in partner numbers.





Expected changes in core workforce turnover in FY2016

Turnover across all levels, except secretarial and administrative staff are expected to increase.



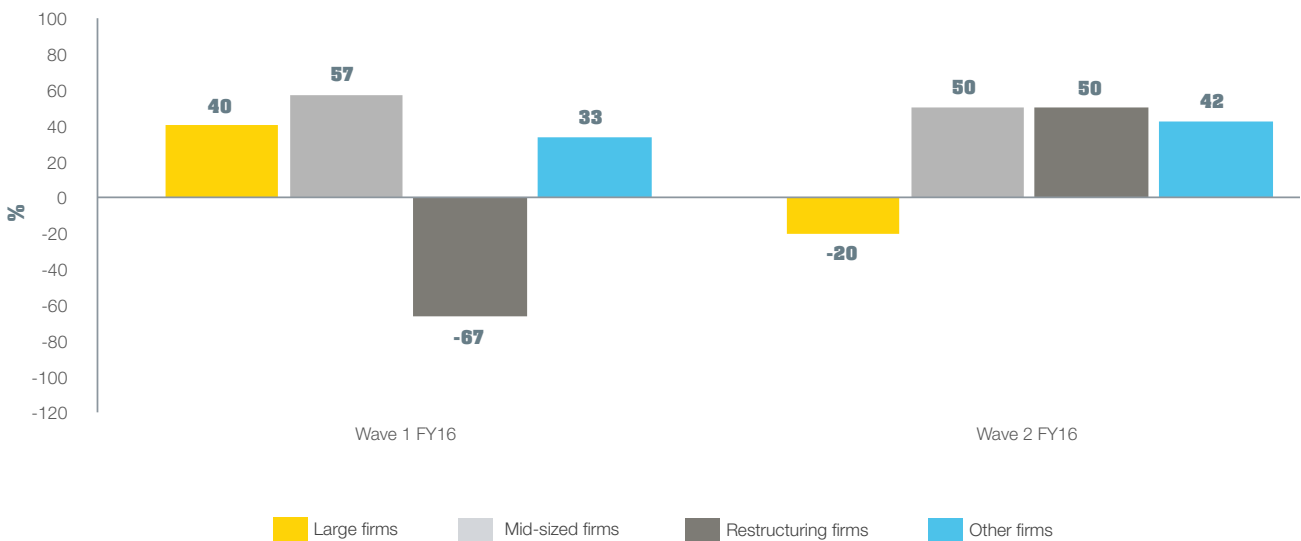
Changes in average remuneration in FY2016

Increase in remuneration is forecast to be highest for salary partners and directors



Change in operating margins for the next 6 months

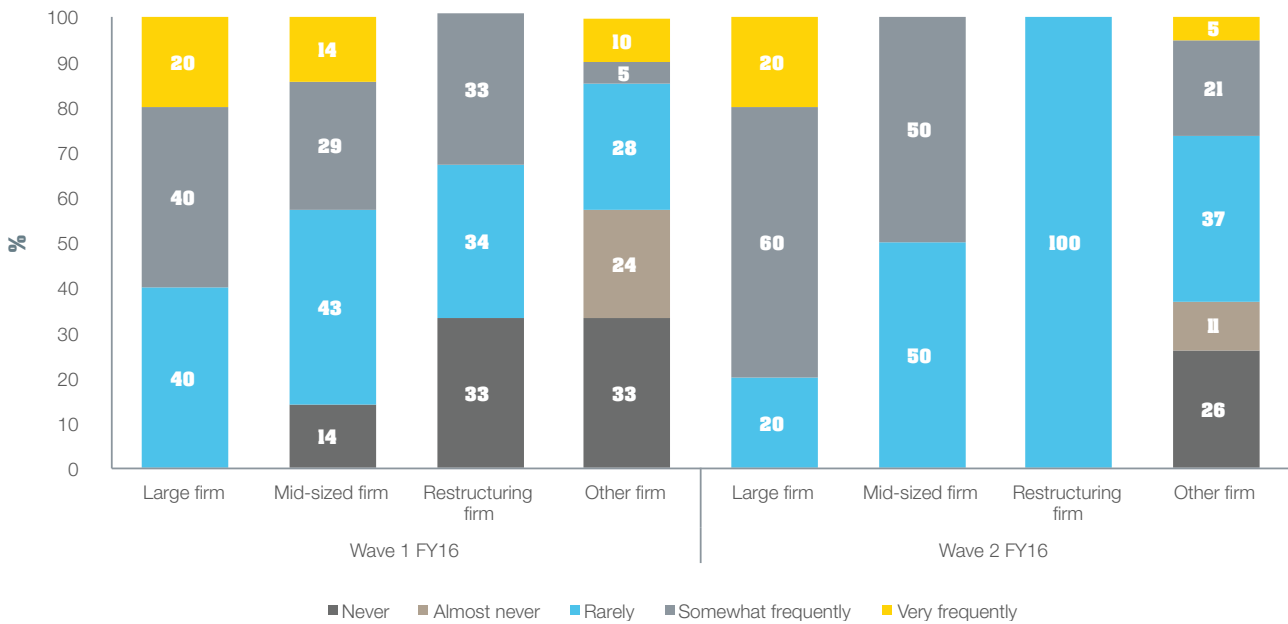
All firms, except Large firms, forecast operating margins to increase for the next 6 months.



Outsourcing

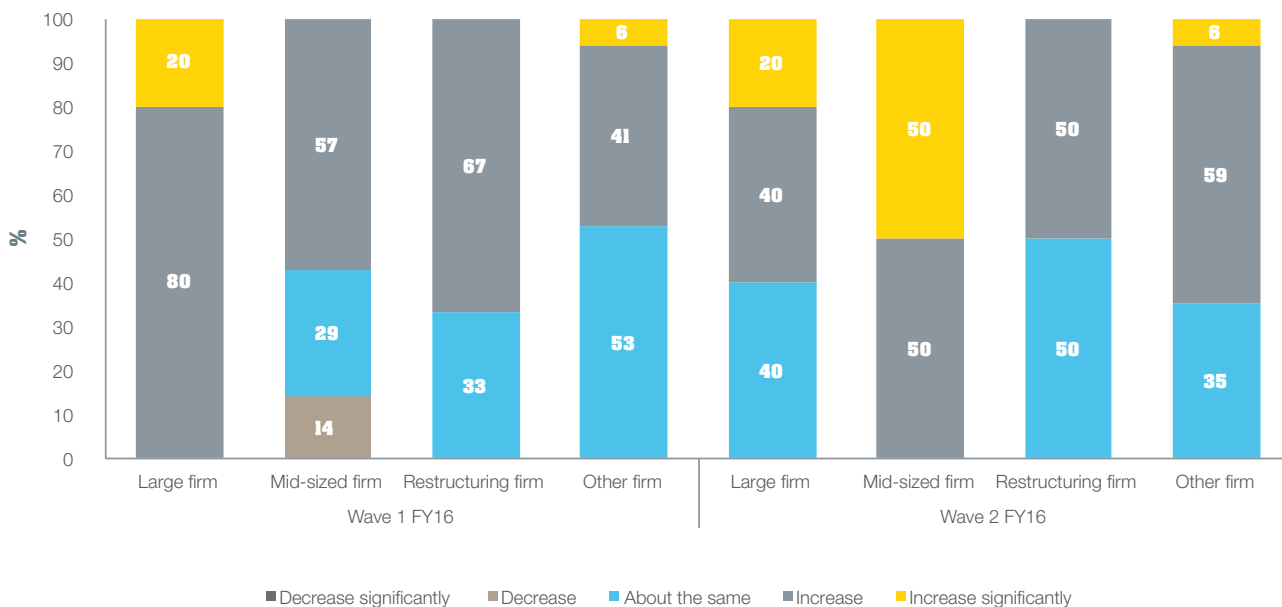
Frequency of outsourcing to lower cost providers

The proportion of firms who outsource work frequently has increased among all firm types except Restructuring firms.



Outsourcing work over the next 12 months

The majority of firm leaders in Large, Mid-sized and Other firms forecast an increase in outsourcing work over the next 12 months.



Further information

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