



CommBank
Accounting Market Pulse

April 2017



Contents

Key insights	3
The state of the market	6
An improving outlook	7
Revenues and profit rising	8
Efficiency and expertise maintain margins	9
Challenges	10
Competition intensifies	11
Staffing issues loom large	13
Opportunities	14
Growth through diversification	15
Investing in productivity	16
Harnessing technological change	17
Return on investment	18
Accounting and artificial intelligence (AI)	19
Talk to us	20



Key insights

**An informed analysis of the trends
shaping accounting today**

CommBank Accounting Market Pulse is an in-depth analysis of the rapidly evolving accounting landscape, featuring exclusive insights from Australia's leading firms.



Key insights

Welcome to the first edition of our new-look CommBank Accounting Market Pulse, combining in-depth quantitative data with commentary from CommBank's Professional Services specialists.

We'll continue to take the pulse of the accounting market across Australia each year, focusing on selected themes of special interest to our accounting clients. In this edition, we look at the ongoing investments in new technology that have already changed the face of the industry and transformed the way many accountants interact with their clients, their suppliers, and each other.

While there's no doubt that market conditions remain challenging, the news is largely good. Our latest survey reveals a widespread uptick in confidence across the industry, with most firms expecting revenues to rise and margins to remain robust. Importantly, we believe this resurgence in optimism is not simply the result of improved economic conditions, but also a positive outcome of the enormous range of business initiatives implemented over the last few years, with firms of all sizes seeking to improve efficiency, build stronger client relationships and create new revenue streams. It is highly encouraging to see those efforts gaining traction.

As our report shows, many firms continue to look for opportunities to diversify their businesses by creating a broader offering covering wealth management,

consulting, and strategic advice, counteracting the decline in revenue and margins from more traditional accounting, tax and auditing services. That puts accounting firms ahead of the curve compared to other professional services businesses, many of which face similar challenges. Accountants have also been exceptionally active in adapting new technologies — from internal collaboration tools, to cloud-based data sharing solutions.

Our report shows that this transformation is set to continue, with firms expanding their investment in innovation even further. Yet it also confirms the importance of combining technological change with a focus on client service that leverages the profession's enduring relationship strengths. While technology enables accountants to use their expertise in new ways, their status as a trusted partner to their clients remains central to the value they provide. The key is to build on and enhance that relationship.

We hope you find this report thought-provoking, and look forward to the opportunity to discuss our insights with you further.

Marc Totaro

National Manager, Professional Services
Business and Private Banking
Commonwealth Bank of Australia

About CommBank Accounting Market Pulse

CommBank Accounting Market Pulse is an exclusive, wide-ranging analysis of the Australian accounting sector. This edition is based on a quantitative survey of CEOs, CFOs and other senior leaders from 36 accounting firms across Australia, carried out on behalf of CommBank by beaton in January and February 2017.



Business confidence

Net percentage (positive – negative)

	May 2016	April 2017	
Now	23%	33%	▲
Next 12 months	20%	19%	▼
Next 24 months	40%	36%	▼



FY2017 forecasts

	Lower	About the same	Higher
Revenue	11%	17%	72%
Profit	11%	28%	61%
Margin	14%	53%	33%



Fastest growing servicing lines

May 2016 April 2017 Change

30% **61%** **+31%**

Business advisory services

37% **47%** **+10%**

Wealth management & financial planning

20% **42%** **+22%**

Superannuation



Top 3 business challenges

Net percentage (positive – negative)

Finding quality staff	-50%	▼
Winning new business	-44%	▼
Negotiating prices with clients	-39%	▲



Investing more in technology

4 out of **4** large firms

6 out of **8** mid-sized firms

2 out of **4** restructuring firms

16 out of **20** other firms



Investment focus

Proportion of firms increasing investment

IT hardware and software **56%** ▲

Marketing and business development **56%** ▲

Knowledge management **50%** ▲



Return on investment in technology

Too early to tell **32%**

Low or no return **23%**

Moderate return **32%**

High return **13%**





The state of the market

The return of the optimists

As business conditions improve, accounting firms are reaping the benefits of a significant ongoing investment in productivity and efficiency. Yet that doesn't mean they can afford to stand still.

An improving outlook

Firms across the accounting market report an improved business environment. Asked for their view of business conditions for accounting firms today, 47% of the CEOs, CFOs and senior firm leaders in our survey rated them as positive, with another 14% viewing them as negative. The result was a net confidence reading of +33%, ten percentage points higher than our previous wave and our highest reading to date.

This growing sense of confidence continues a trend that has been evident for some time, reflecting both a gradual improvement in general economic conditions and the positive effects of a range of business initiatives implemented by firms across the country.

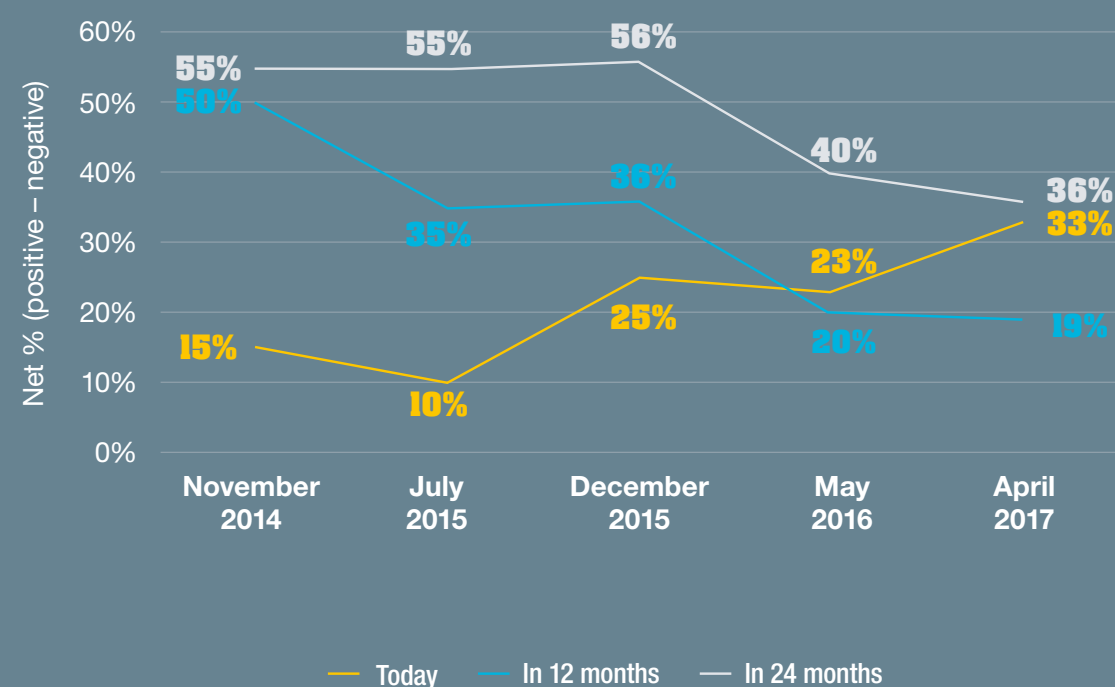
Yet many still remain cautious about the future. While a majority of respondents expected conditions to be positive over the next two years, the overall proportion reporting a positive outlook for 2018 has fallen. And not all firms are equally optimistic.

Although the numbers are small, there are indications that large firms have benefitted more from the improved environment than their smaller competitors. Three out of four large firms in our survey were positive about current conditions, compared to only 40% of the smaller businesses that dominate the other firms category. And the response from our sample of leading restructuring firms was even more mixed, with one positive, one negative, and two neutral.

A possible explanation of this difference is that an uncertain environment has seen a flight to quality by accounting clients, particularly large corporates. When conditions are unpredictable, clients are likely to become increasingly attracted to firms that offer the assurance of high quality strategic advice — even at a higher cost.

Cautiously optimistic

How do you rate overall business conditions for Australian accounting firms?



“We are getting referrals from our overseas offices and our local clients. Our growth rate at present is somewhere between 15 and 20 per cent.”

CEO/General Manager

Large firm

Revenues and profit rising

As conditions improve, firms across the market anticipate rising revenues and higher profits. Seventy-two per cent of firms said they expected revenue to be higher in FY2017 compared to the previous financial year, with only 11% forecasting a decline. Once again, large firms were most likely to see conditions as increasingly positive, with all four respondents forecasting a revenue increase.

Profit forecasts were slightly more muted, although still generally positive. Sixty-one per cent of firms forecast a profit increase, including all four large firms and four out of eight mid-sized firms. At a time when conditions are strengthening and margins remain healthy, this result appears to reflect a significant ongoing investment in the future, as firms of all sizes embrace technological and business transformation to enhance productivity and remain competitive.

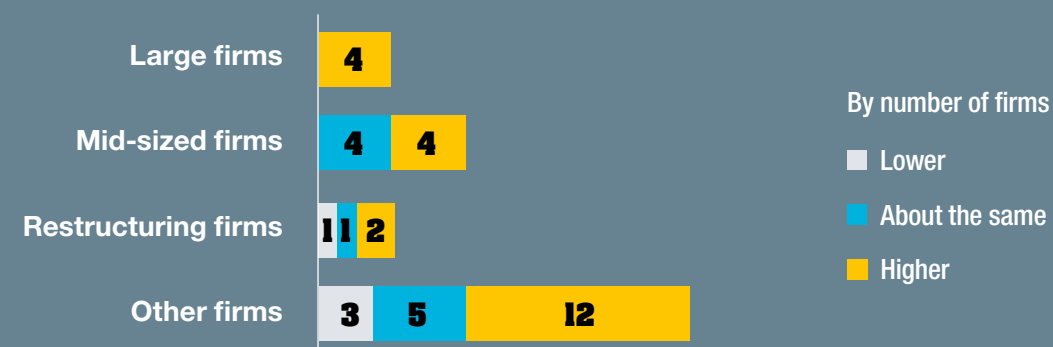
Revenues set to rise

What is your revenue forecast for FY2017 compared to FY2016?



Profit growth

What is your profit forecast for FY2017 compared to FY2016?



Efficiency and expertise maintain margins

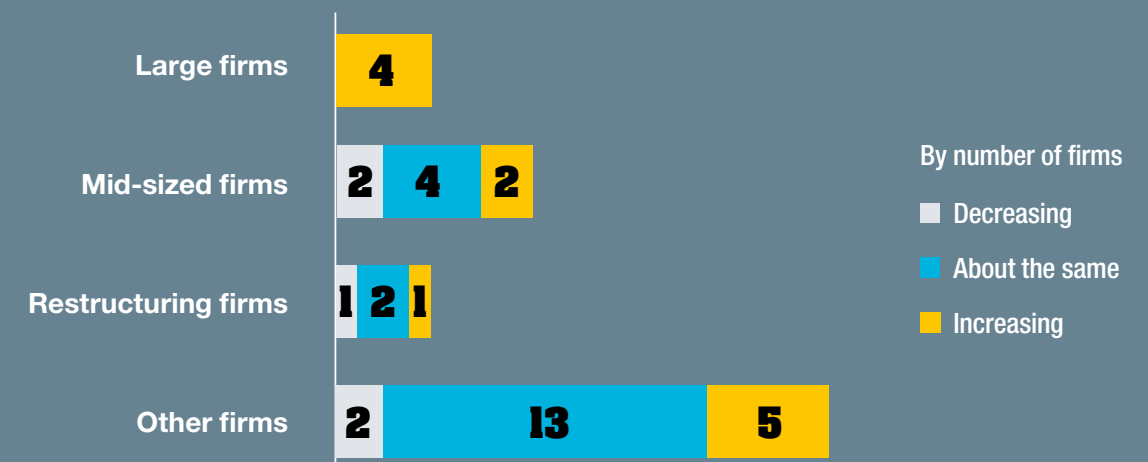
Despite a highly competitive environment and increasing pricing pressure from cost-conscious clients, firms continued to forecast stable or increasing margins. One in three firms said they expected operating margins to increase over the next six months, including all four large firms. Another 53% forecast that margins would remain stable.

In large part, this reflects the success of accounting firms in increasing efficiency and productivity. From right-sizing, to technological innovation and a variety of inventive outsourcing solutions, firms have been diligently pursuing opportunities to reduce costs while simultaneously driving revenue through the development of new business lines.

The strong result for large firms may also reflect the growing attractiveness of their value proposition in a volatile business environment. Large firms have been particularly effective in communicating the value their services create, while increasingly focusing business development on higher value strategic advice where their pricing power is greatest.

Growth at the top

What is your forecast for operating margins over the next 6 months?



“[We are using] sales and client listening programs to improve on and coach Partners and Managers in the firm, so that our proposals for work meet the needs of clients and communicate the value we offer.”

CEO/General Manager

Large firm

Challenges

Winning business from cost-conscious clients

A rapidly evolving market has seen competition intensify as cost-conscious clients find new ways to trim spending.

Competition intensifies

While many accounting firms are successfully adapting to the pressures of an evolving market, many still face significant challenges. Among large and mid-sized firms, four were particularly acute.

Both groups reported that winning new business was a key issue, with two out of four large firms and six out of eight mid-sized firms saying that it was challenging or very challenging. This reflects an increasingly competitive environment where cost-sensitive clients are making greater use of new technologies and alternative service models to reduce their professional services spend. That has resulted in continued pricing pressure, with two out of four large firms and five out of eight mid-sized firms also reporting that negotiating prices with clients remains challenging. Competing with other firms remains a key focus for many, creating challenges for half of the four large firms and three of the eight mid-sized firms in our survey. Finally, recruitment remains an important issue, with many saying that finding quality staff continues to create difficulties.

However, there are also indications that firms are responding positively to pricing pressures, with an increasing emphasis on alternatives to traditional hourly rates, including both fixed or capped fees and hybrid models combining fixed fees with variable or risk-based components. Our observations suggest that firms with well-developed project management capabilities can significantly enhance margins by making the transition from hourly rates to fixed fees and value-based charging. By accurately scoping the effort involved in each activity, then carefully defining inclusions and the treatment of variations, firms can create added certainty for both themselves and their clients, while directly demonstrating the link between fees and the value they provide.

“Having a frank discussion with clients often helps [with price negotiations], as does trying to avoid surprises. Nevertheless, the challenge is where the client does not understand the value being delivered or the complexity involved.”

Chairperson
Mid-sized firm



Top challenges for large firms



By number of firms ■ Challenging ■ Manageable

Top challenges for restructuring firms



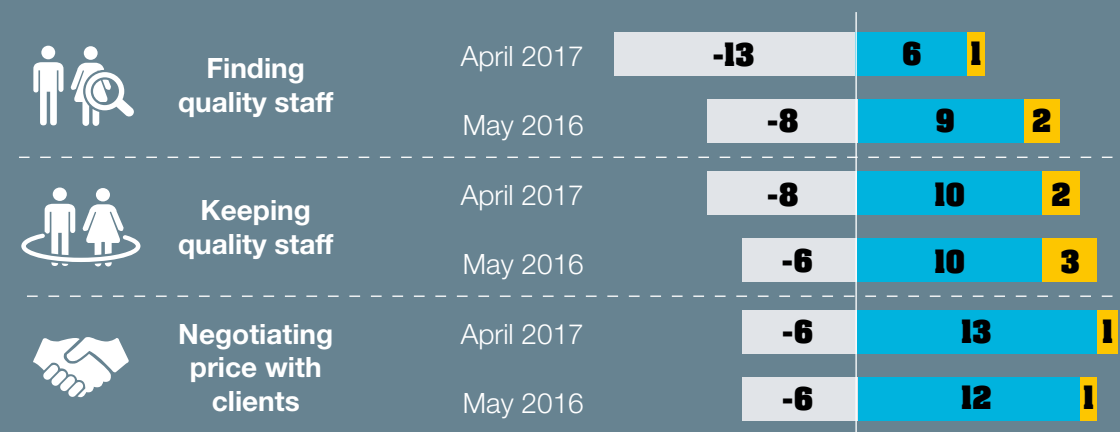
By number of firms ■ Challenging ■ Manageable ■ Easy

Top challenges for mid-sized firms



By number of firms ■ Challenging ■ Manageable ■ Easy

Top challenges for other firms



By number of firms ■ Challenging ■ Manageable ■ Easy



Staffing issues loom large

Price negotiations are also challenging for restructuring firms, with two out of four respondents identifying it as a key issue, along with 6 out of 20 other firms. But staffing concerns remain paramount among both segments. Two out of the four restructuring firms in our survey said that keeping quality staff was a challenge, along with eight out of 20 other firms. Meanwhile, 13 out of 20 other firms reported that finding skilled staff is difficult, up from 8 out of 19 six months ago.

This reflects a marketplace in which larger firms are increasingly seeking to reward and nurture high quality staff with a range of non-salary benefits, including greater flexibility and ongoing development opportunities, reducing staff churn across the industry and placing experienced people in high demand. It remains to be seen how smaller firms respond to this challenge.

“Attracting and retaining quality people is the best form of defence in maintaining a competitive edge.”

CEO / Managing Partner
Other firm

Opportunities

Focusing on efficiency and value

Innovative firms are taking advantage of technology, outsourcing and process automation to reduce costs, increase efficiency, and offer their clients more flexibility and value.



Growth through diversification

With innovations like outsourcing and automation making traditional tax and compliance work increasingly competitive and commoditised, firms have responded by diversifying into new businesses areas and focusing on higher value-added activities. As a result, the top and larger firms in the mid-sized category are no longer purely accounting businesses, but wide-ranging consulting firms with multiple service lines and specialisations across segments.

Our survey showed firms across the market are planning to grow and diversify in a variety of areas. Business advisory services were a key focus for many, including three out of four large firms and seven out of eight mid-sized firms. Wealth management, financial planning and super also remained a significant growth area, particularly among small firms, 60% of which are planning to grow their superannuation businesses.

And while fewer firms were focused on management consulting than in our previous survey, it remained an important growth area for all four large firms, with improved productivity making this an increasingly rewarding area of activity.






“[We] continue to introduce new services, with greater utilisation of our CRM system for an understanding of client needs.”

CFO

Large firm

Accelerating

Which service lines are you planning to enter or grow significantly in the next 12–18 months?

		May 2016	April 2017	Change
	Business advisory services	30%	61%	+31%
	Superannuation	20%	42%	+22%
	Internal audit	7%	19%	+12%
	External & statutory audit	13%	25%	+12%
	Wealth management & financial planning	37%	47%	+10%

Decelerating

Which service lines are you planning to enter or grow significantly in the next 12–18 months?

		May 2016	April 2017	Change
	Management consulting services	43%	33%	-10%
	Economic & social policy advice	10%	3%	-7%
	Business recovery & insolvency	13%	8%	-5%
	Property advisory	13%	8%	-5%
	Risk management	13%	8%	-5%
	Tax compliance	10%	8%	-2%

Investing in productivity

As pricing pressure intensifies and clients become increasingly demanding, firms are protecting their margins and boosting competitiveness by investing in productivity. Asked about their spending forecasts for the first half of FY2017, a majority of firms indicated growing levels of investment in productivity-enhancing areas, including IT hardware and software (with 56% increasing expenditure), knowledge management (50% increasing) and staff development (47% increasing).

Overall, this suggests firms are responding positively and confidently to a changing environment, seeking to adapt and transform their businesses as the market evolves. Yet it also reveals a recognition that, unless firms innovate now, their clients will become increasingly self-sufficient, drawing on cost-effective online tools and outsourced services to bypass their current professional service providers. As a result, firms that fail to invest now could risk seeing their services become more commoditised and their competitiveness eventually eroded.

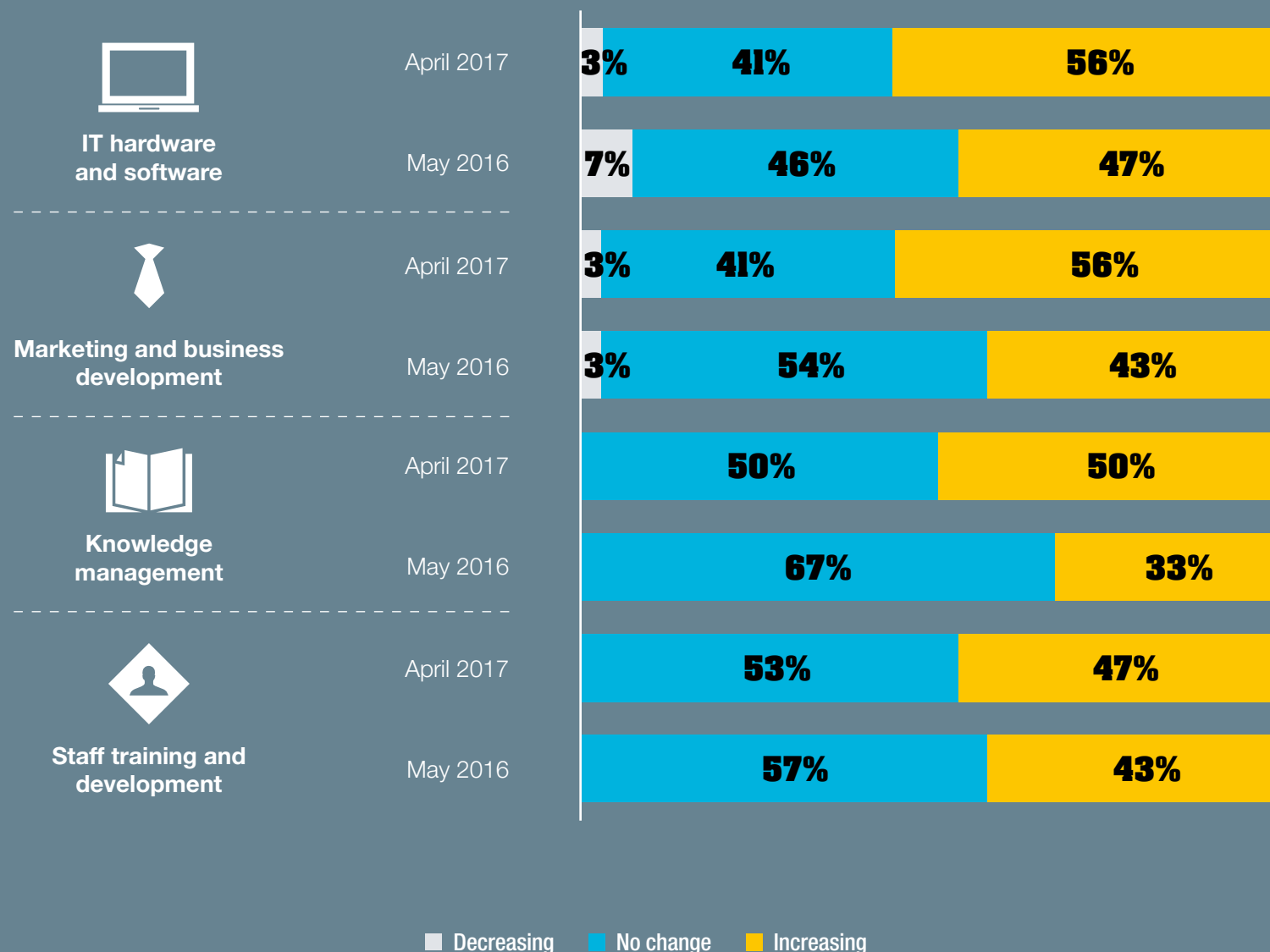
“[We are] training our team in management service offerings and needs analysis for clients, and having them focus on clients’ business improvement.”

CEO/Managing Partner

Mid-sized firm

Focus areas for investment

What is your forecast for these expenses (excluding salaries) over the next 6 months?



Harnessing technological change

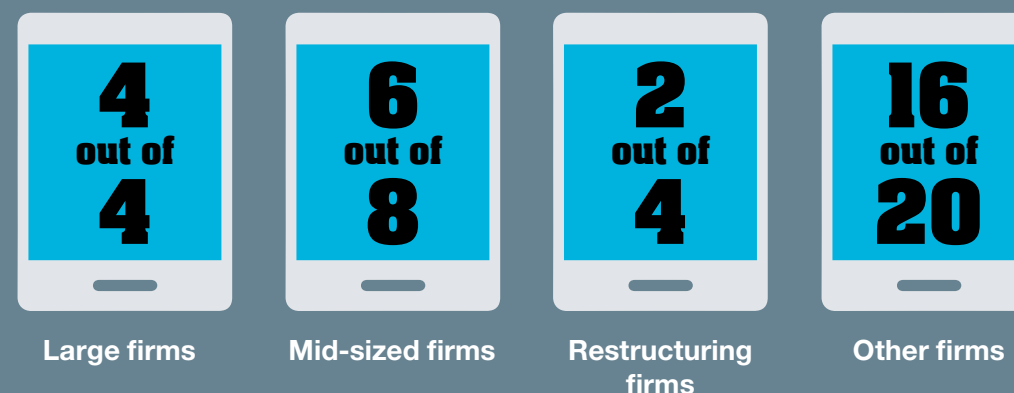
Three in four firms plan to increase their investment in technology over the next 12 months, as they seek to harness technological change to improve competitiveness and efficiency. While client-facing social media was the most popular initiative (implemented by 69% of firms), much of the focus is on productivity tools, including mobility solutions (56%) and document automation (41% implemented, 42% implementing).

Larger firms are also increasingly implementing enterprise social media based communications platforms, such as Yammer, with all four large firms and seven out of eight mid-sized firms in our survey having implemented a social communications platform of some kind. Firms are also benefitting from the convenience and flexibility of cloud-based accounting solutions that enable them to spend more time generating insights and offering strategic advice, and less time uploading and reconciling data.

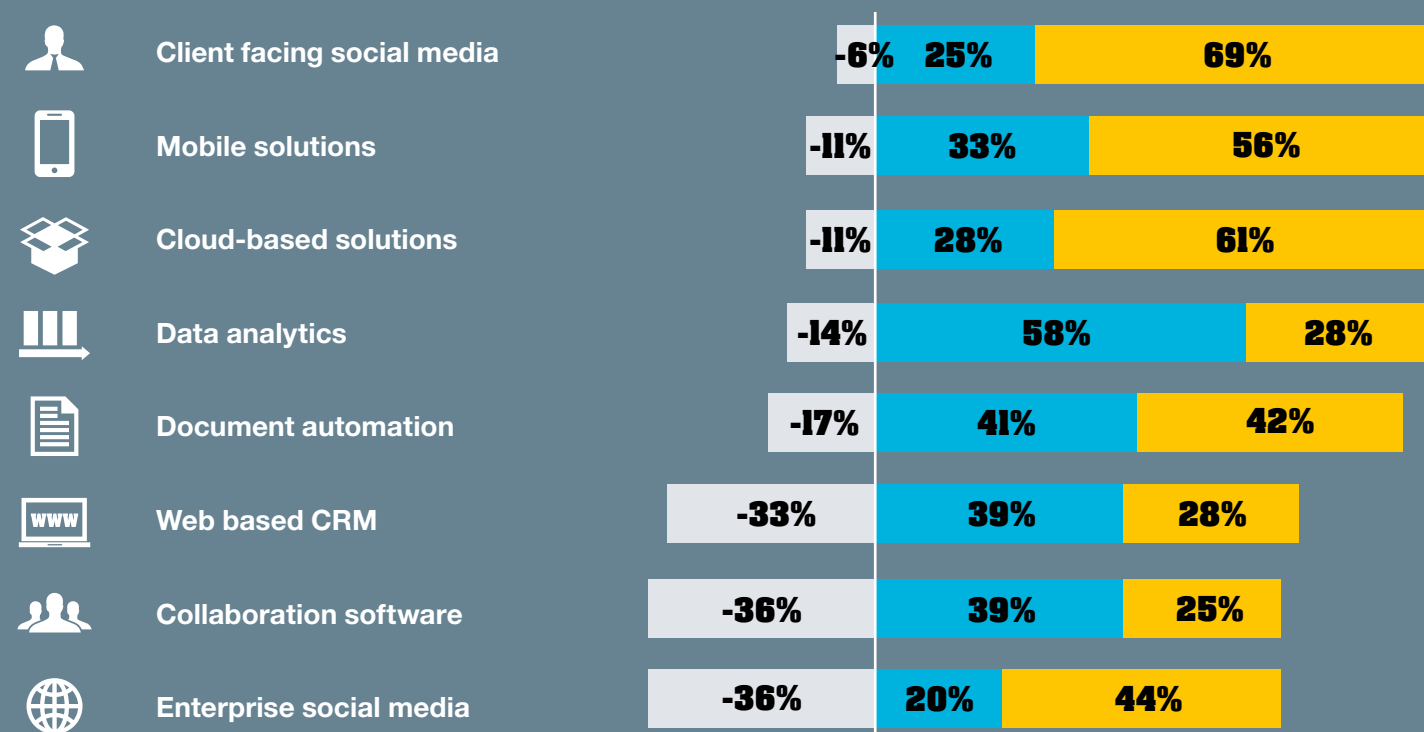
As a result of these investments, Australian accounting firms are confident that they are keeping pace with technological change, both at home and internationally. Overall, 39% of firms said they believe Australian accounting firms are adopting new technologies faster than their overseas peers, while another 44% believed we are progressing at the same rate. Similarly, 31% said accountants are adopting technologies faster than other professions, with 36% saying they are moving at a similar pace.

Who's increasing their investment in technology?

Do you plan to increase your investment in information and communications technologies over the next 12 months?



Which technologies are they using?



■ Not implemented ■ Implementing or planning to implement ■ Already implemented

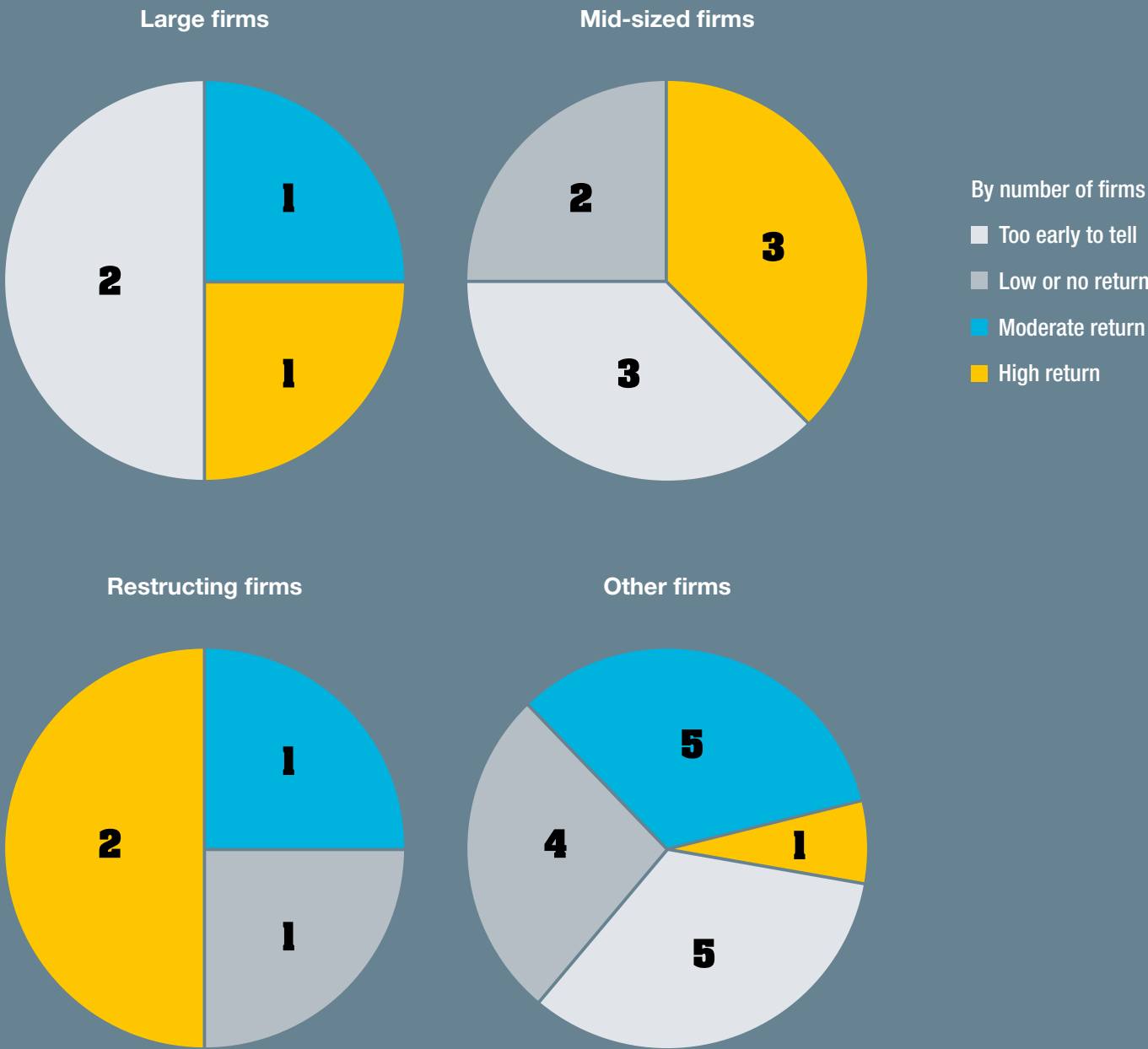
Return on investment

While many of these investments are in their early stages, a number of firms said their increased spending on technology was already yielding results. Forty-five per cent reported a positive return from their investment, with another 32% saying it was still too early to tell.

One thing is certain: there is more change yet to come. As new technologies come online, including artificial intelligence and automated self-service solutions, we will see firms continue to experiment with new business models and methods of service delivery — changing the face of the market for ever.

Return on investment by firm type among those who have adopted new information and communications technologies

To what extent have you seen a return on investment from the adoption of these technologies in your firm?



Accounting and artificial intelligence (AI)



Brad Rosairo is Vice President, Asia Pacific, for Neota Logic, an artificial intelligence (AI) company specialising in solutions for professional services organisations. He says that while the uptake of AI in accounting has so far been limited, interest is growing rapidly, with a number of leading global firms already partnering with Neota offshore.

“This is a very exciting time,” he says. “The potential is — I’m not going to say limitless — but certainly very significant.”

He says AI solutions can help firms leverage their existing expertise to create new revenue streams and operate more efficiently.

“Everyone is telling us they need to find ways to do more with less. AI is a fast and effective way to achieve that,” he says.

Rosairo says AI platforms like Neota can combine workflow, document automation and reasoning tools to enable accountants and other professionals to rapidly build applications for their clients or the firm itself.

“We help professionals take mundane, lower-value activities and automate them,” he says. “You don’t need to be a business analyst or a software engineer — you just need to be an expert in your field. Then, with some

training and using drag and drop technology, you can create an automated process and put it to work internally to improve efficiency, or license it to your clients to generate revenue.”

“We’re building applications in anything from three days to a month that would normally take IT firms six to 12 months,” he says.

Rosairo believes AI is one of five key technology trends for professional services firms to watch in 2017, along with no code or low code enterprise solutions; live chat; mobile services; and virtual reality tools. He also predicts that the next few years will see a proliferation of AI solutions in areas like tax, risk and compliance.

For accounting firms, that opens up significant opportunities — provided that they are ready to take advantage of them.

“AI won’t make individual expertise redundant, but it will empower professionals to apply their expertise more broadly and efficiently, and make it available to clients in new ways,” he says.

“AI isn’t going away, so it’s a matter of embracing it, rather than risking being left behind.”

Talk to us

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