

# CommBank Accounting Market Pulse.

Conducted by Beaton Research + Consulting

December 2015 (Wave 1 FY16)



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# Confidence returns as firms tackle longer-term challenges



## Marc Totaro

National Manager, Professional Services  
Commonwealth Bank

I am delighted to present the first-half edition of the CommBank Accounting Market Pulse for the 2015/16 financial year, conducted in partnership with Beaton Research + Consulting.

This survey, which captures a cross-section of accounting and restructuring firms revealed a marked improvement in overall business sentiment. Perceptions of current business conditions have picked up materially, with the positive uplift reflecting broader economic conditions.

Digging deeper, firms in New South Wales, the ACT and the Northern Territory are the most optimistic about revenue growth in the coming 12 months.

It is also noteworthy that the larger accounting firms have the most positive perception about both their business and broader economic conditions. That may partly be a function of their continued successful diversification beyond traditional accounting and advisory services. They are giving considerable thought to where they will find their growth, be it in technology advisory, management consulting or broader business advisory.

It is great to see that the top three challenges are no longer seen to be so daunting. Previously those industry challenges were rated between 50 and 60 per cent but that has fallen sharply to around 30 per cent.

Taken together, these two metrics indicate confidence has returned to the industry.

**“ Nevertheless, our discussion with key industry players reveal the ongoing concerns with respect to traditional accounting and tax-based work becoming ever more commoditised and price driven.”**

As the managing partner of one mid-sized firm responded in the survey, accountants need to think differently going forward if they are to maintain revenue and margin.

Firms are tackling the issue in various ways. There is a constant challenge to cross-sell higher margin services as a way to maintain revenue and remain profitable. Firms are also exploring new revenue streams, with the larger firms leading the way in expanding into non-traditional areas like legal services, recruitment and digital services.

**“Most firms continue to look for cost reduction strategies to protect margins.”**

For example, the trend to outsource and/or offshore compliance-based or shared services work to lower-cost providers continues apace.

In this regard, the key areas for increased investment in the next six months are staff training and IT hardware and software to support their strategy to become more efficient.

CommBank's Accounting Market Pulse captures the industry's latest trends and nuances so it serves as a tool for business planning and benchmarking. We value the opportunity to monitor key financial and operational performance indicators and share the resulting insights with you.

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# Economic outlook



**Diana Mousina**

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Over the past six months, domestic economic conditions have strengthened. Employment growth has exceeded expectations, with the unemployment rate falling to 5.9%, down from 6.4% in early 2015. Jobs growth has been concentrated in service sectors like healthcare, accommodation, education and professional services. As a result, consumer confidence has slowly improved, with the average household now optimistic about the economy and its own financial position. Business conditions have also increased leading to higher business confidence.

A stronger labour market is not only a plus for consumer confidence, it also encourages income growth and consumer spending. While consumer spending growth is still slightly below its long-run average, it has unquestionably improved, helping to create better conditions for Australian businesses. That, in turn, has given businesses a renewed sense of confidence — something very much reflected in this CommBank Accounting Market Pulse.

**“Our latest survey reveals an upsurge in optimism among accounting firms across the country. For accountants, the outlook for the next two years is increasingly positive. Yet there is still plenty of room for improvement.”**

Our survey shows that, despite growing confidence about business conditions, Australian accounting firms still hold a negative view of the Australian economy. Part of this negativity is the uncertainty over Australia’s ability to transition from mining to non-mining led growth. Yet that transition has already progressed further than many realise — with the decline in mining capex now around 50% complete. And despite the significant drag that the decline has produced, the economy has continued to grow, albeit below trend.

Business surveys often cite the need for stronger consumer demand to drive business investment. Non-mining investment has been low for some time, especially during the period when mining expenditure was crowding out activity in other sectors. That period has passed, consumer spending has now begun to pick up and interest rates are at record lows— yet non-mining business investment has yet to recover. This lack of spending by non-mining businesses is a key cause of uncertainty in Australia, particularly as mining capex is declining.

**“Looking ahead, a falling Australian dollar will aid the transition. The dollar’s value is now nearly 20% lower than a year ago, and CommBank expects it to fall further when the US raises interest rates. An Australian dollar valued between 65 and 70 US cents looks likely for 2016.”**

The good news is that a lower Australian dollar makes our exports more competitive internationally, and also helps Australian businesses that compete with imports. On the services side, a weaker dollar attracts foreign tourism, while also encouraging Australians to travel domestically, rather than overseas. As a result, tourism-related spending is lifting in Australia and will be a key driver of growth in the broad retail and accommodation industries.

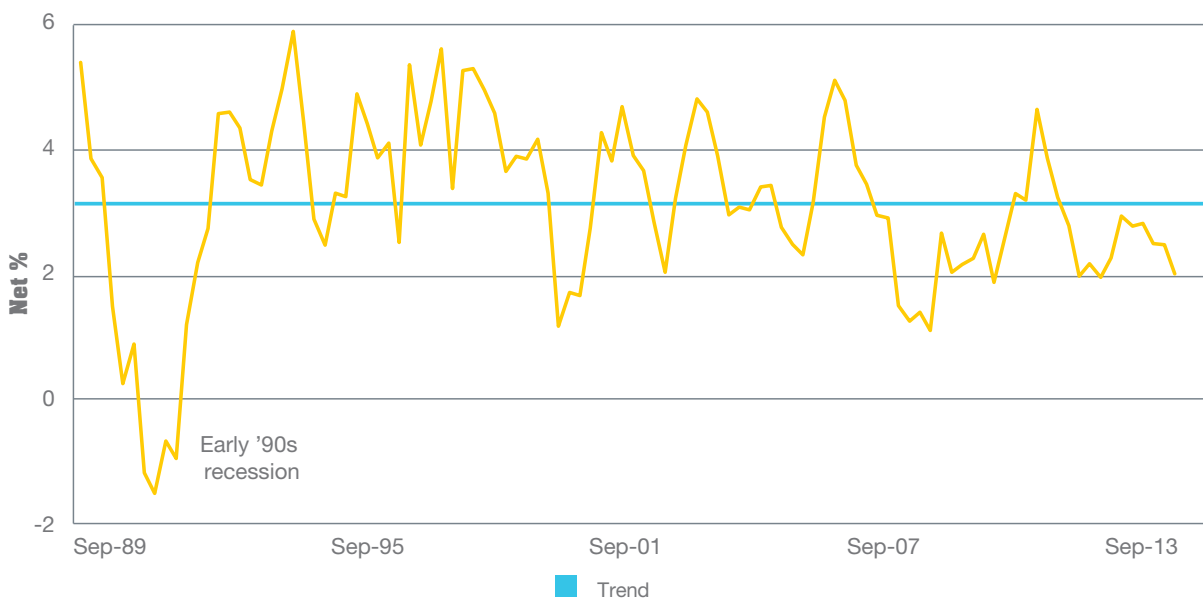
Offshore growth trends are also important. Growth is expected to be slightly below the decade average for Australia’s major trading partners over the next two years. This is largely due to slower growth in China, as the Chinese economy rebalances towards service-orientated growth.

While Chinese growth is slowing, the urbanisation process remains in full swing. The middle income population in China is lifting as a result. This shift also offers opportunities for Australia, given our strong trade ties with Asia. Industries that will benefit from Asia's rising middle class include agriculture, education and tourism.

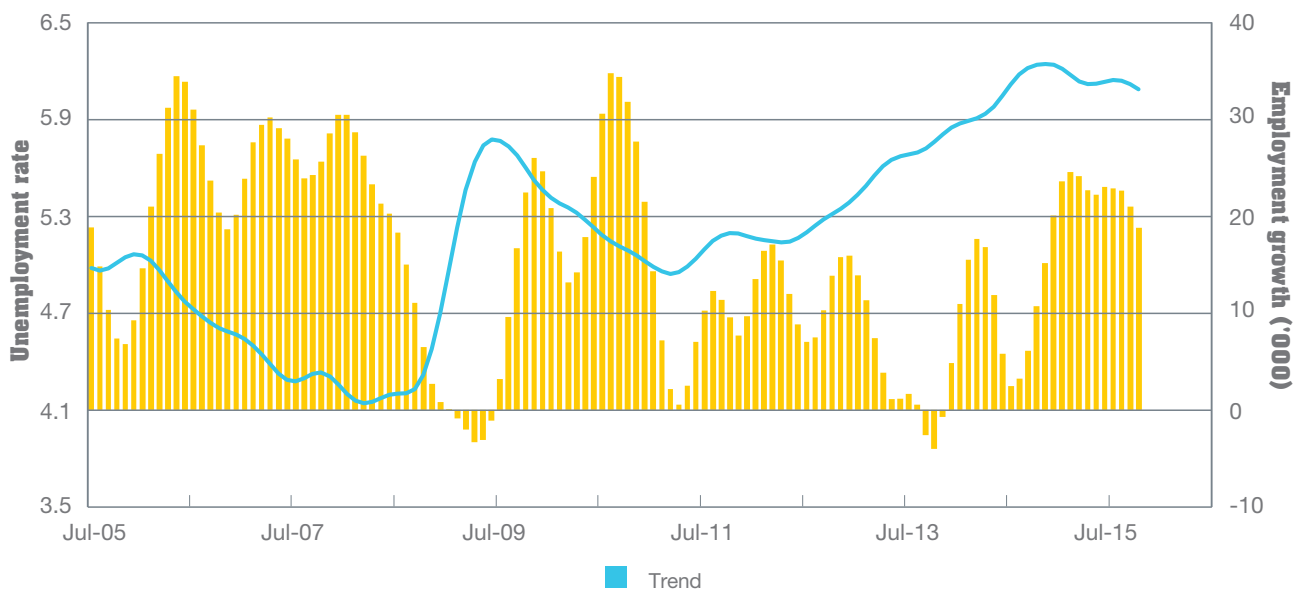
Inflationary pressures in Australia are subdued, although a lower Australian dollar means import

prices will rise in 2016. However, spare capacity in the economy is likely to keep domestic price growth low over the near term. As a result, Inflation is expected to stay within the Reserve Bank of Australia's (RBA) 2%–3% target band, and low inflation gives the RBA room to keep interest rates low as well. At this stage, we do not expect the RBA to cut the cash rate from the current level of 2%, but another rate cut still remains a possibility, particularly if growth weakens and unemployment rises.

### Real GDP (annual % change)

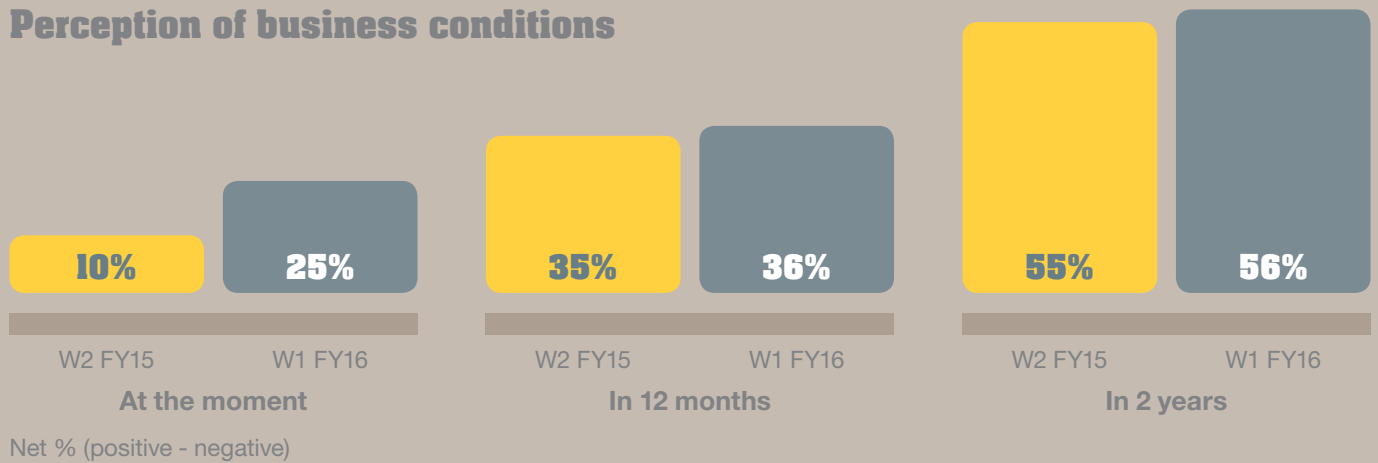


### Labour Market Trends

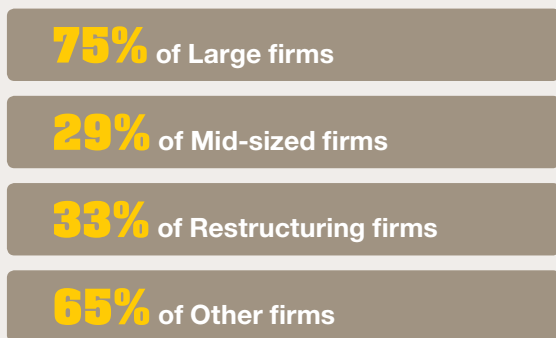


# Snapshot of survey findings

## Perception of business conditions

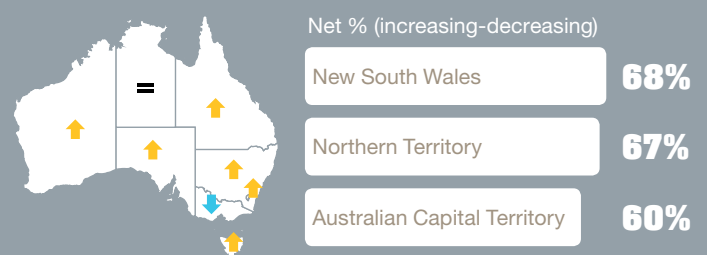


## Revenue from non-accounting services



Have 10% or more of firm revenue derived from non-accounting services

## Geographic areas with highest revenue growth expectations



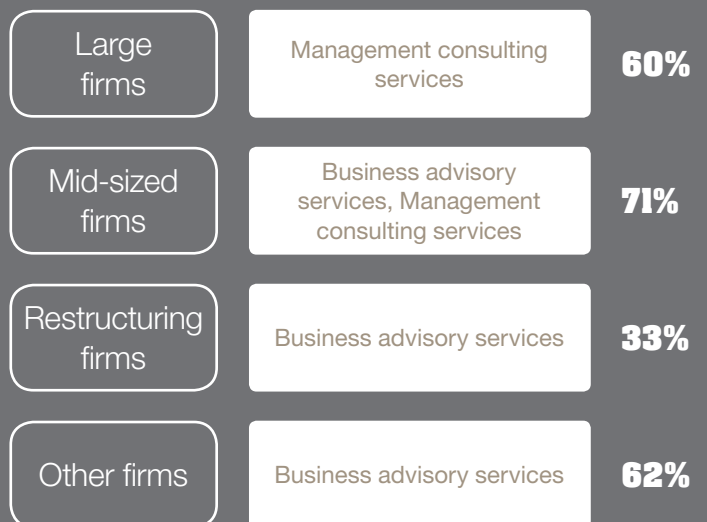
“Significant difficulty in passing on cost increases to clients and charging for compliance work”

## Top 3 challenges for accounting firms



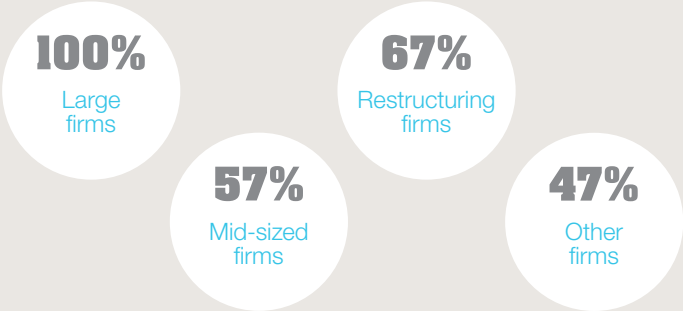
Net % (challenging - easy)

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



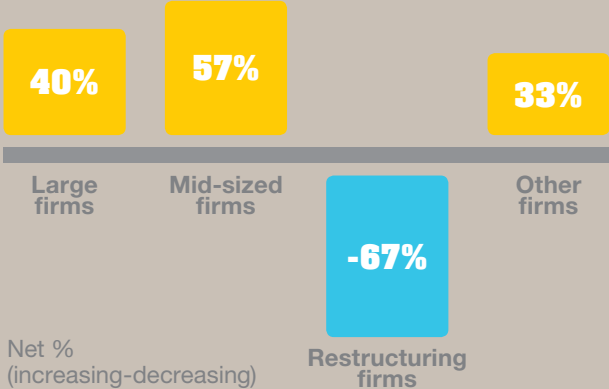
% of respondents

### Outsourcing of work over the next 12 months



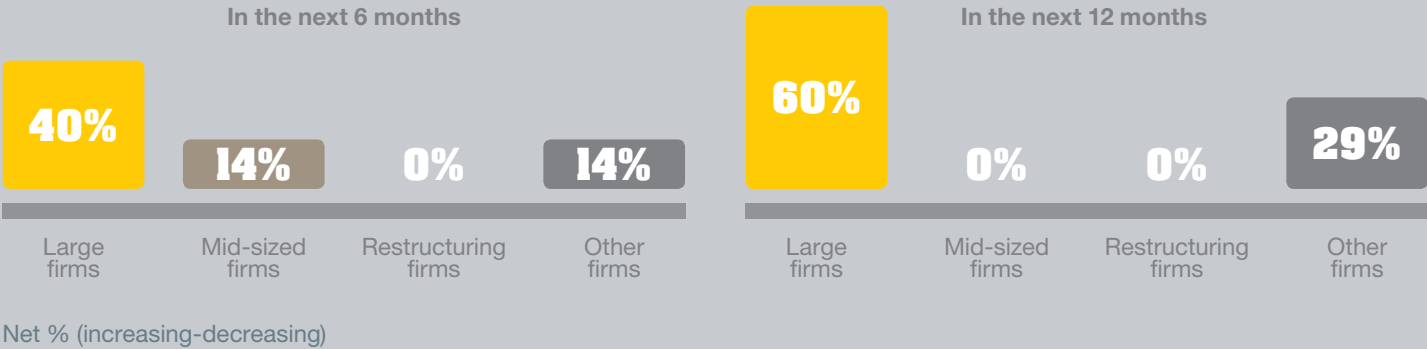
% who think it will increase

### Operating margins forecast



The majority of accounting firms believe the pace of adoption of new technologies in Australia is either **faster or on par with overseas markets**

### Level of investment in new technologies

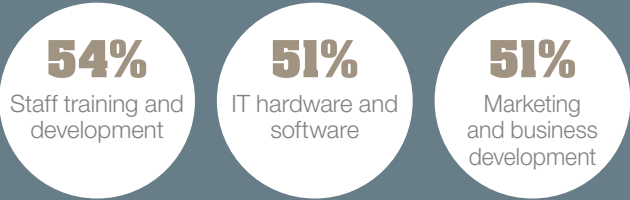


### Staff numbers



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

### Top 3 areas of increased expenses over the next 6 months

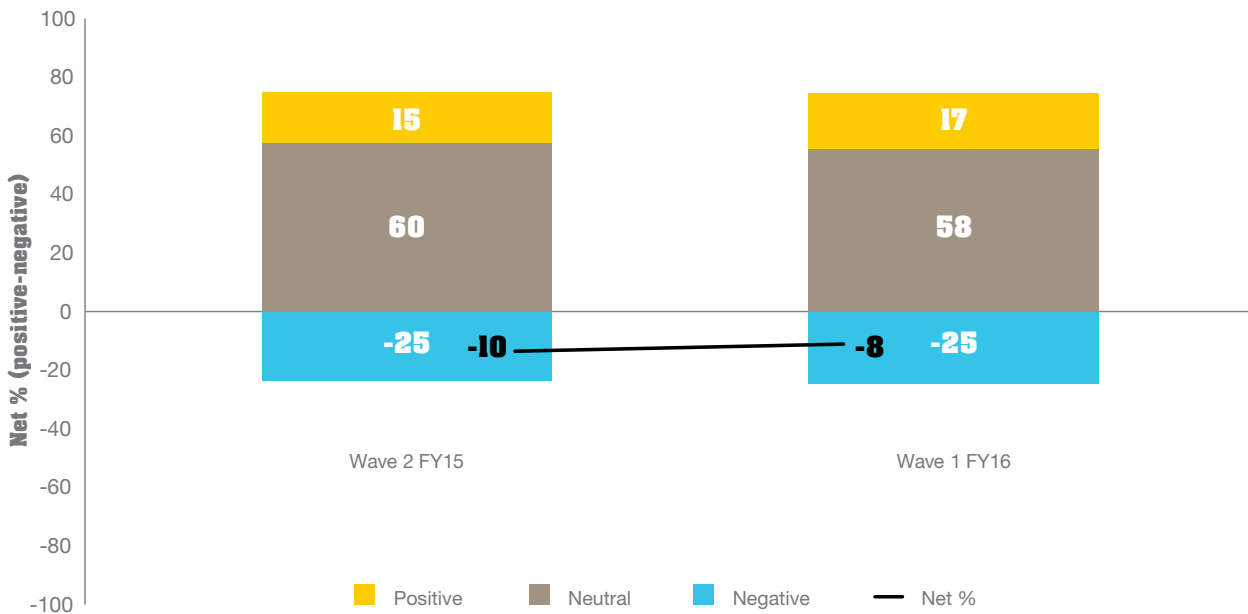


Net % (increasing-decreasing)

# Business conditions

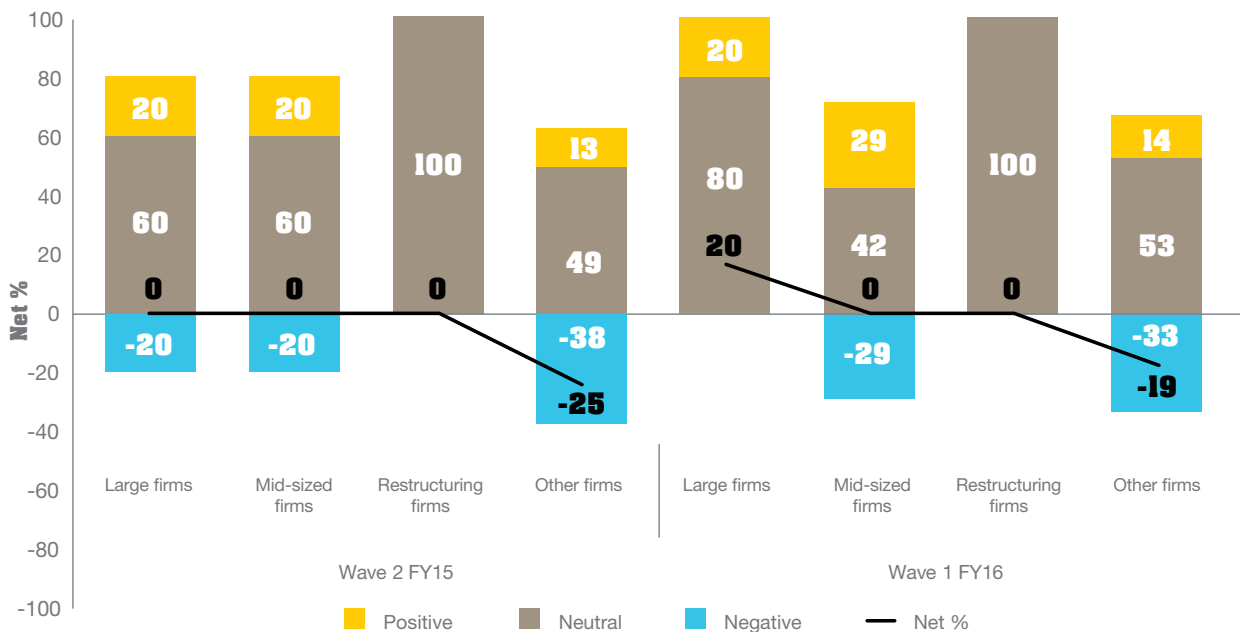
## Perceived performance of the Australian economy

The perceived performance of the Australian economy remains slightly negative among accounting firms.



## Perceived performance of the Australian economy by segment

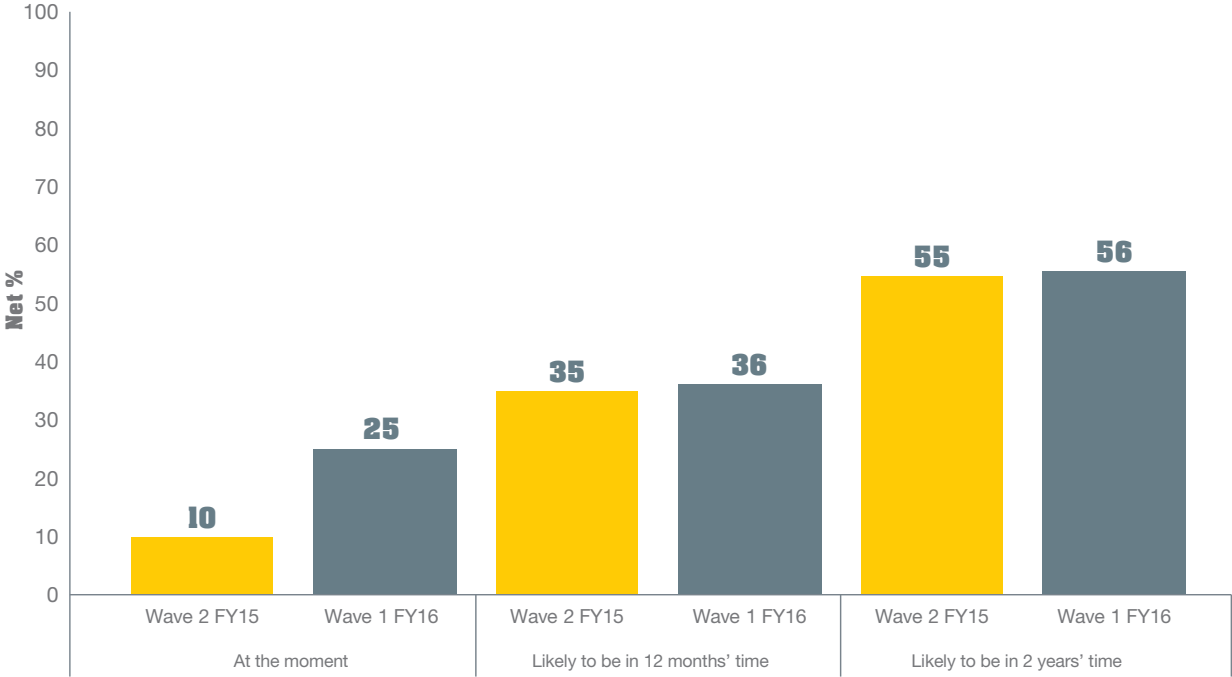
Of the four segments, leaders of other firms are the least optimistic about the Australian economy's performance





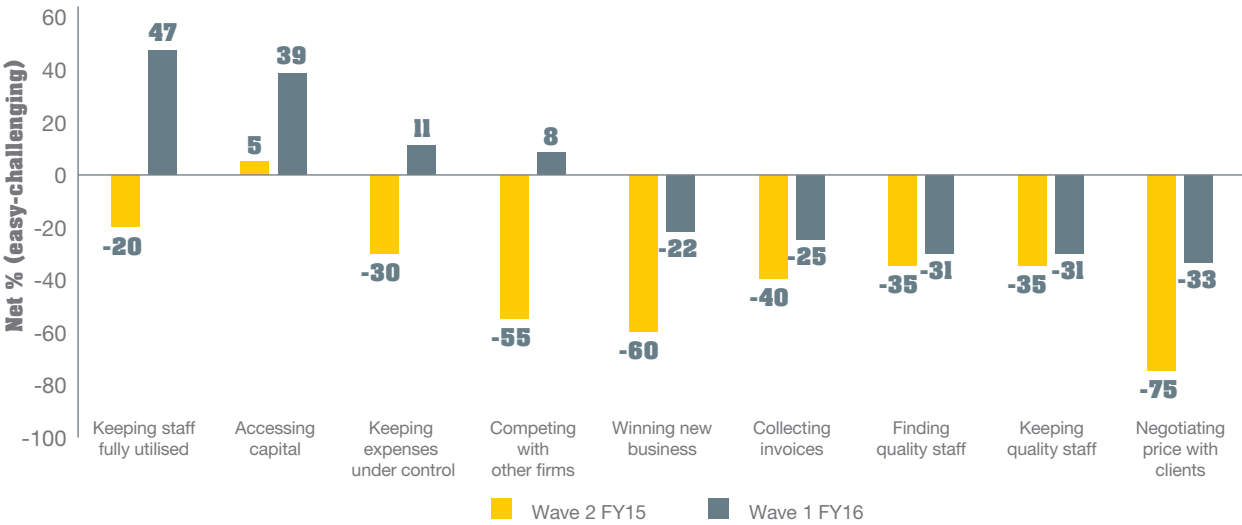
## Perception of business conditions for Australian accounting firms – present to 2017

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



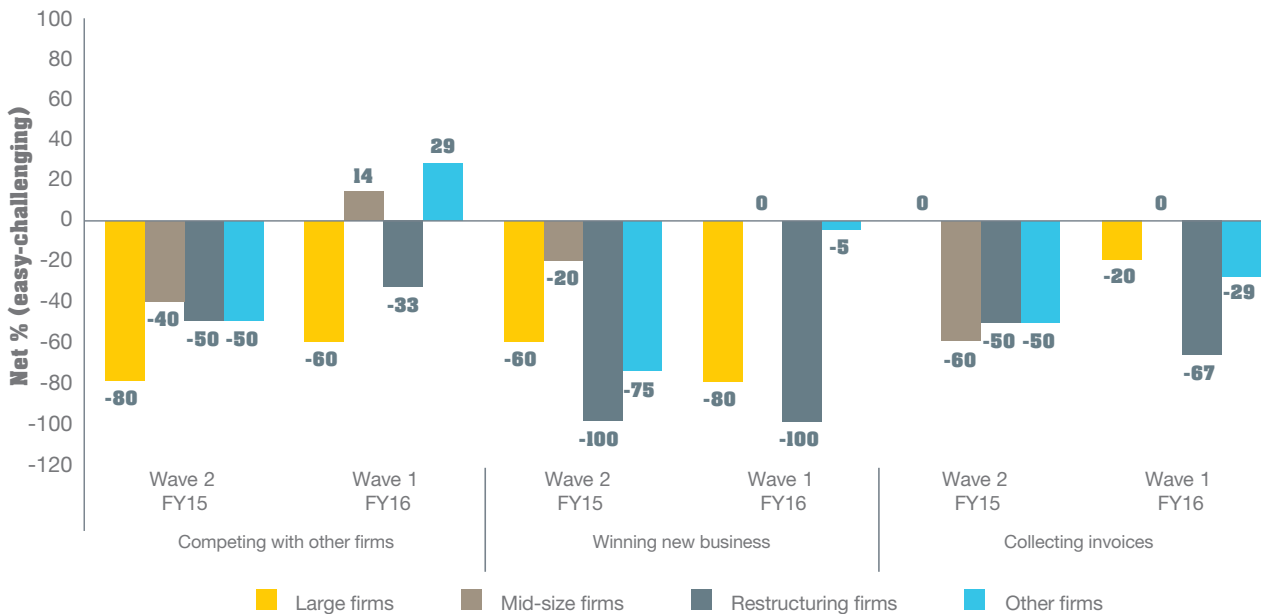
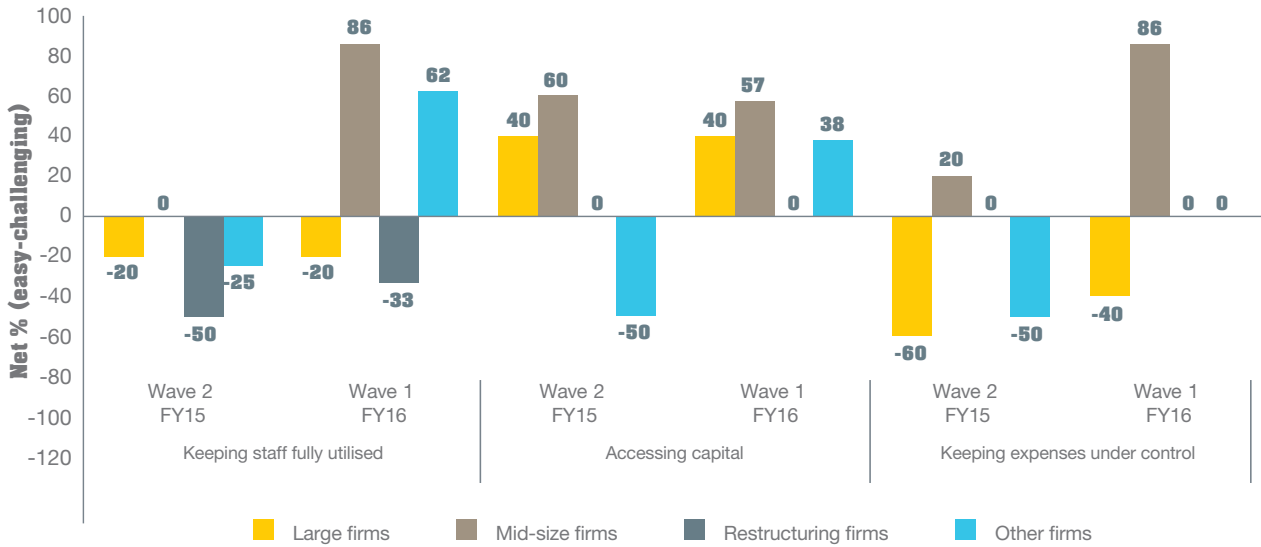
## Perception of business conditions by area

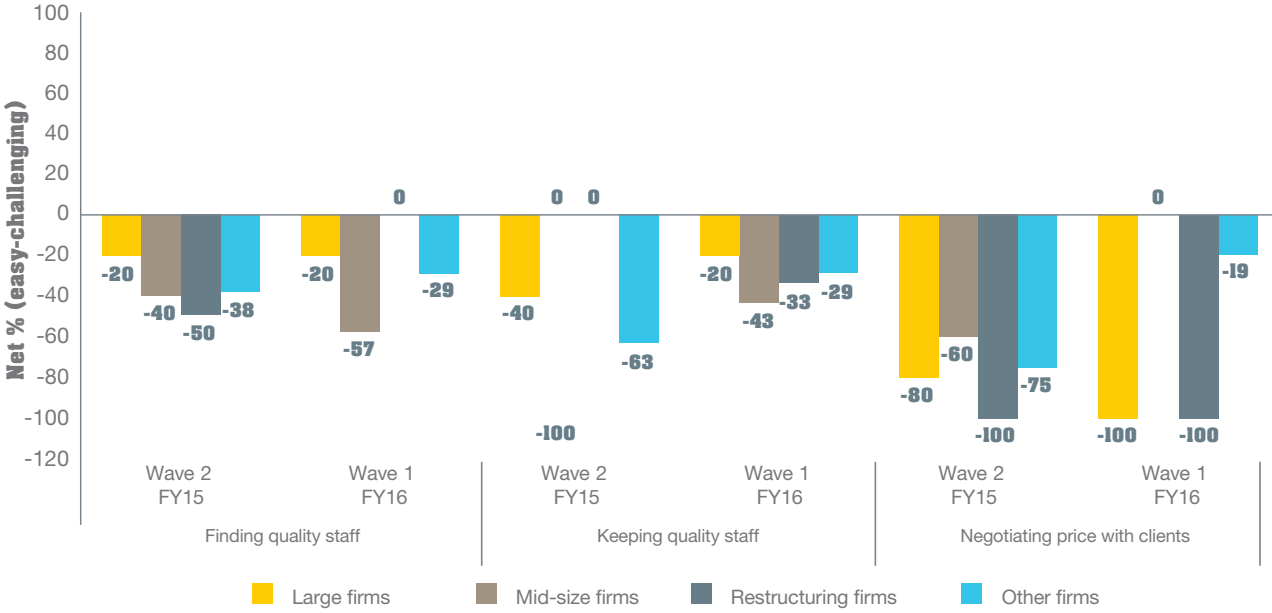
Price negotiation, staff acquisition and retention are considered to be the primary challenges faced by accounting firms.



## Perception of business conditions by area and firm type

Large and restructuring firms are finding it more challenging across most areas compared to mid-sized and other firms.

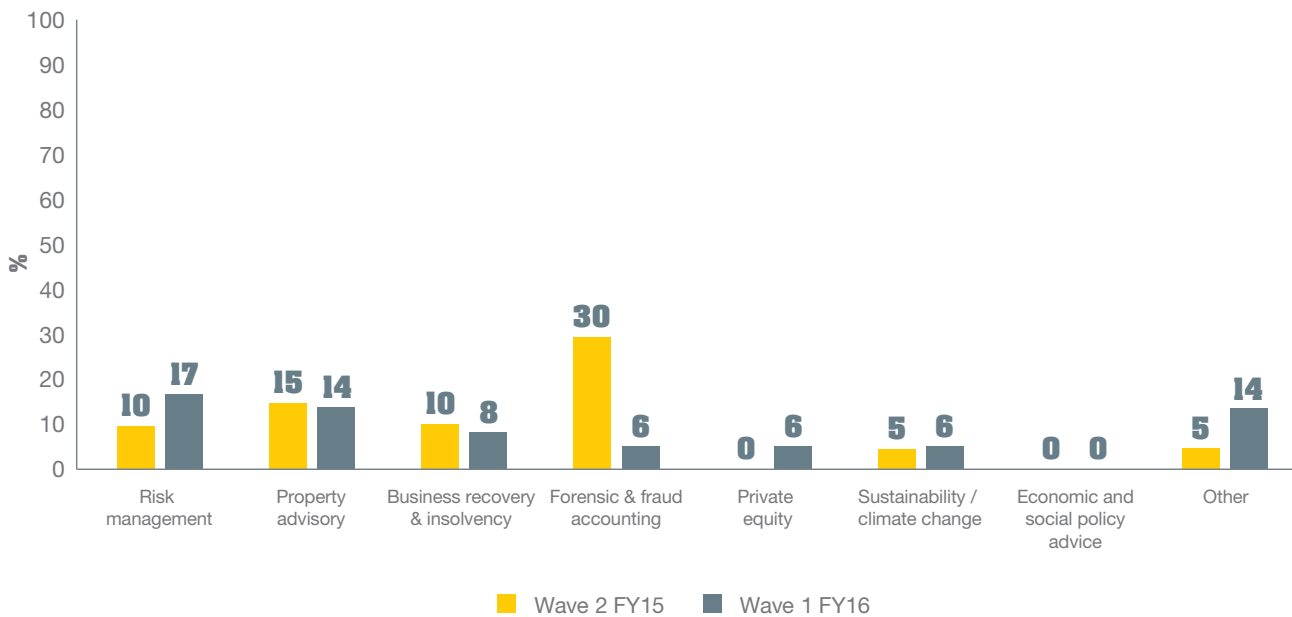
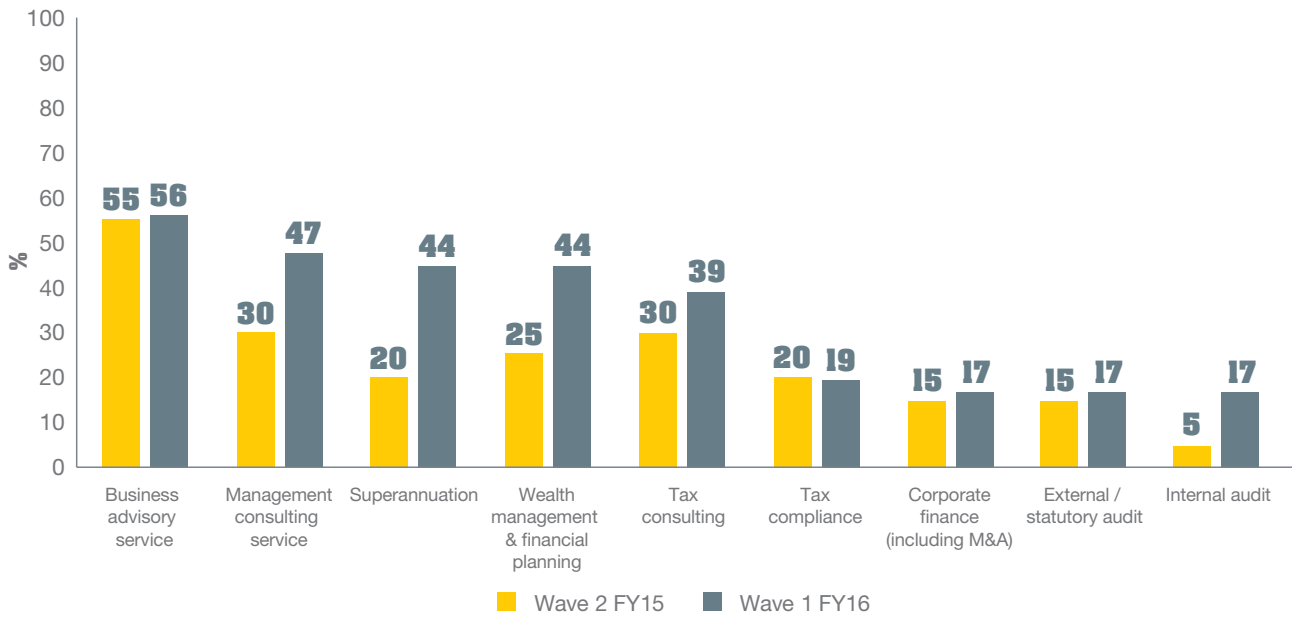




# Business priorities

## Market entry planning and growth

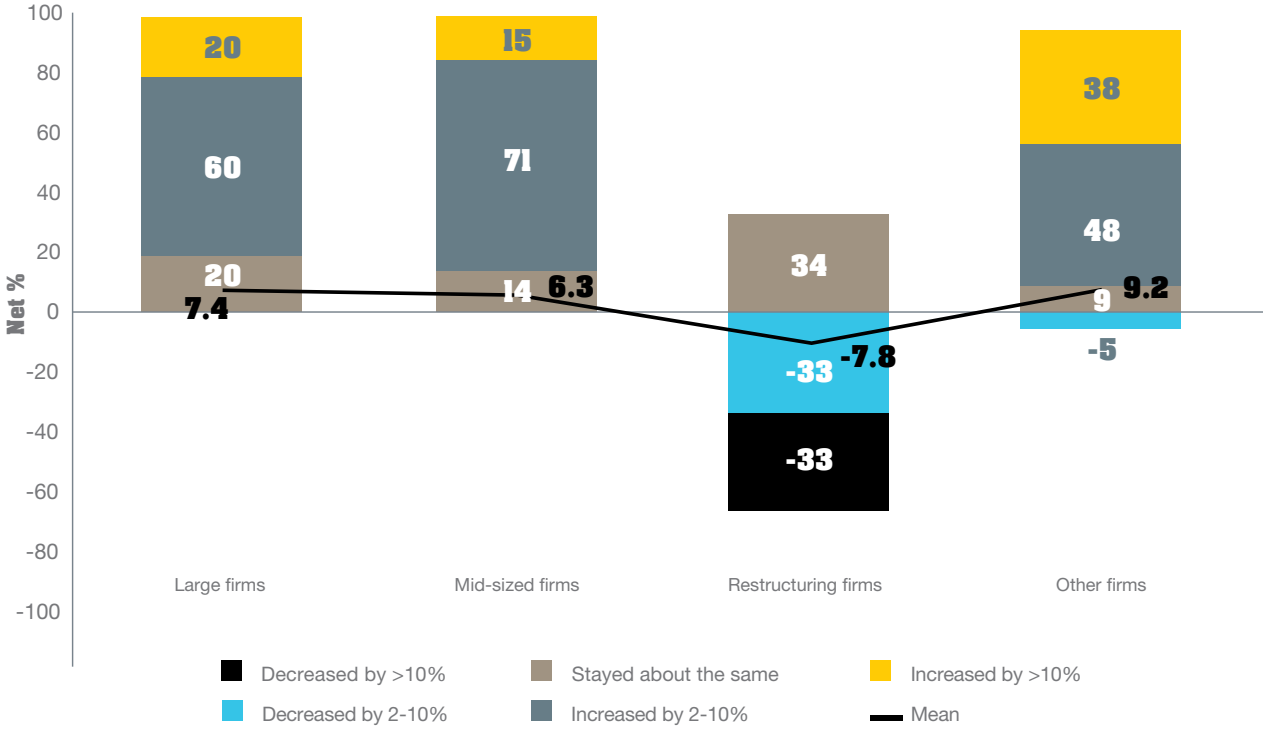
Business advisory, management consulting, superannuation, wealth management and tax consulting remain the primary areas of market growth over the next 12 to 18 months.



# Revenue predictions

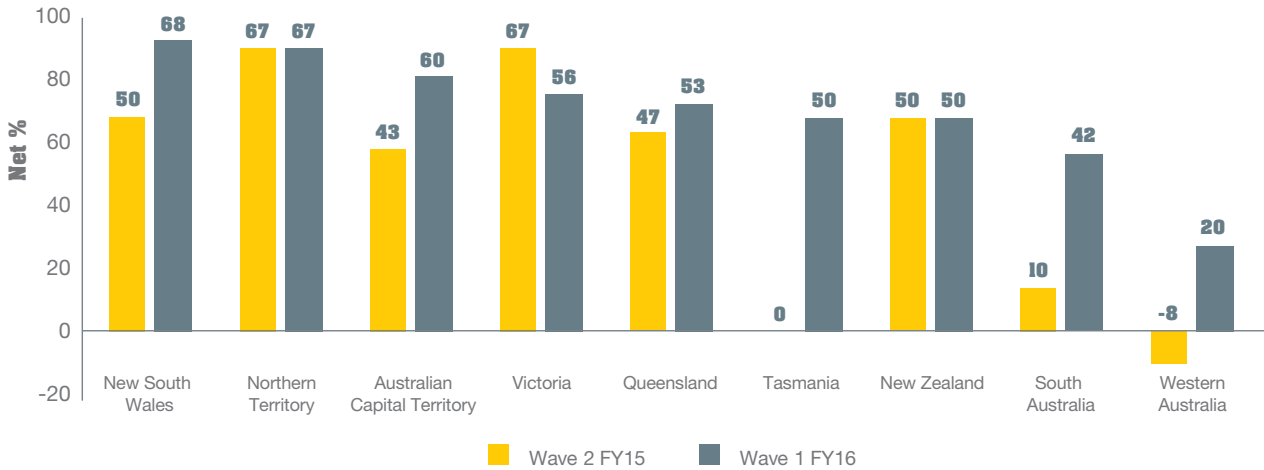
## Changes in revenue from FY14 to FY15

At the end of FY15, all firm types other than restructuring firms were in a better revenue position compared to FY14.



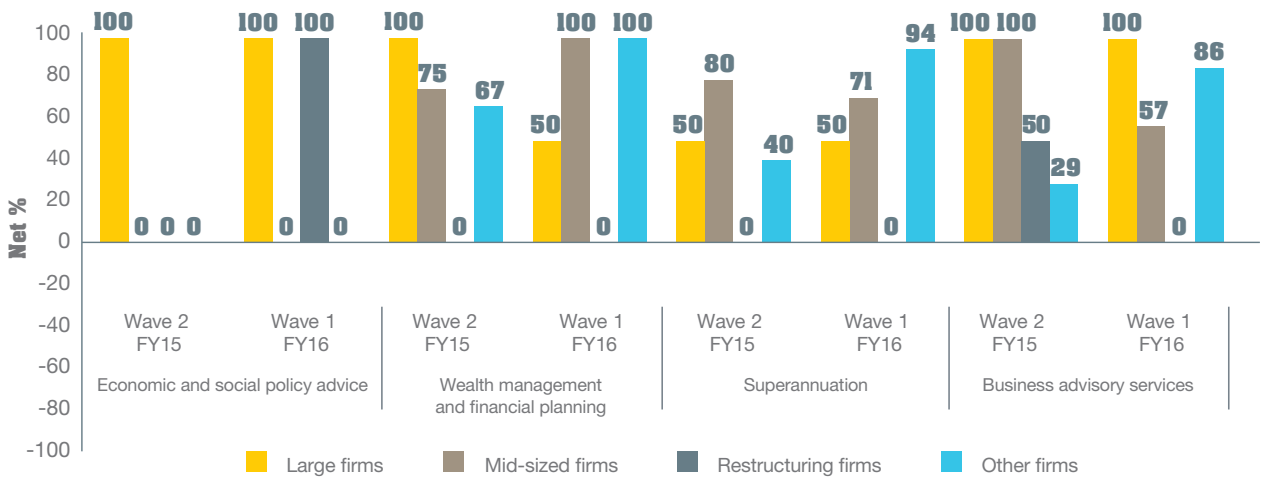
## Changes in revenue by location over the next 6 months

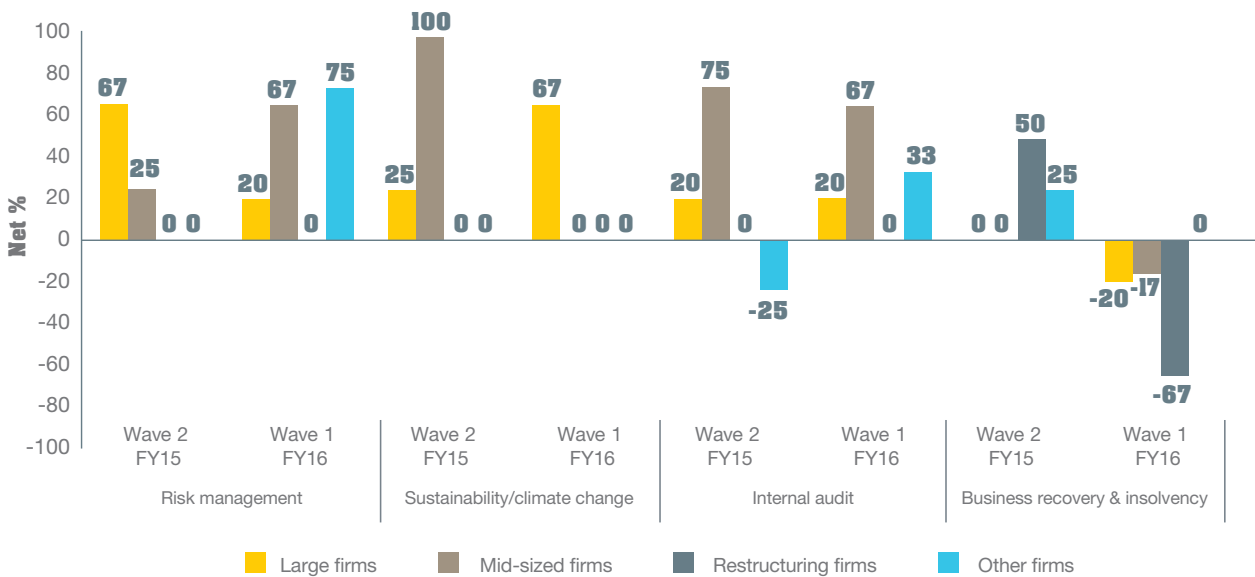
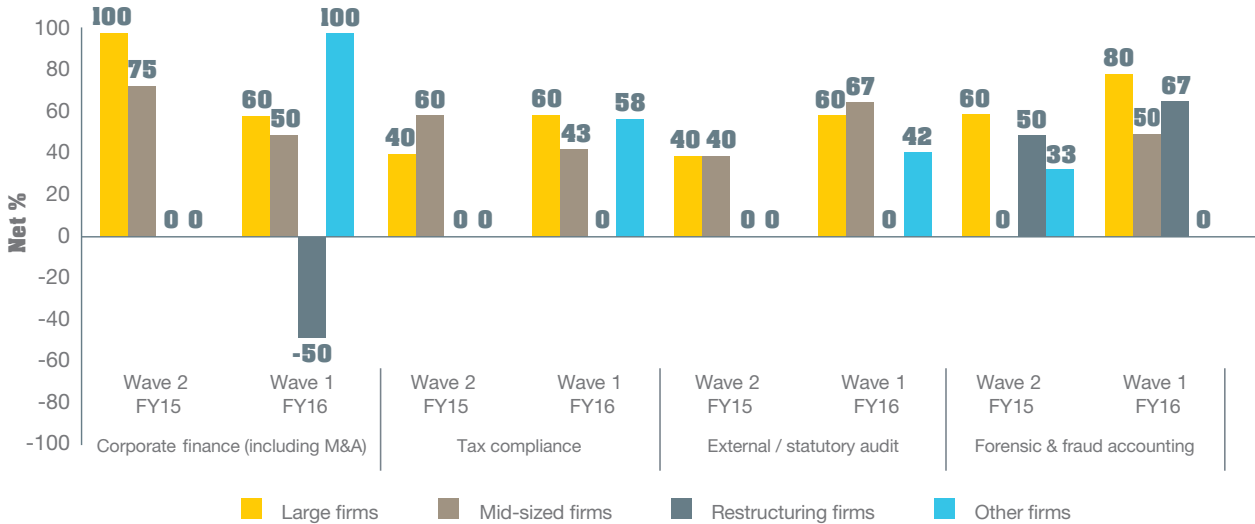
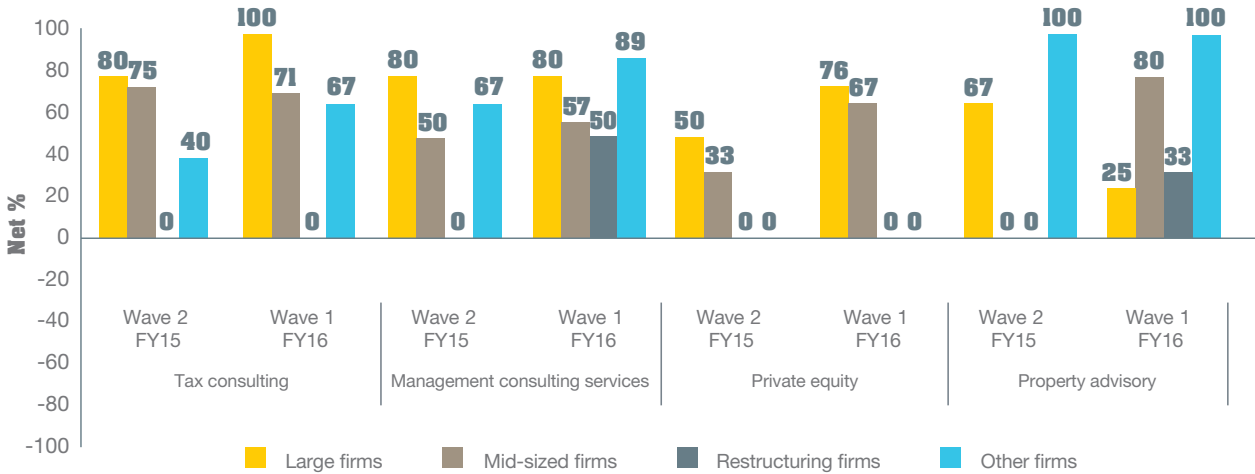
Net forecast for total revenue has increased across all Australian states except for Victoria, down 11%, and the Northern Territory which remained the same.



## Changes in revenue by service line over the next 6 months

Large firm leaders are less optimistic about revenue across corporate finance, risk management and property advisory service lines. However large firm leaders did forecast greater revenue in sustainability/climate change service lines.

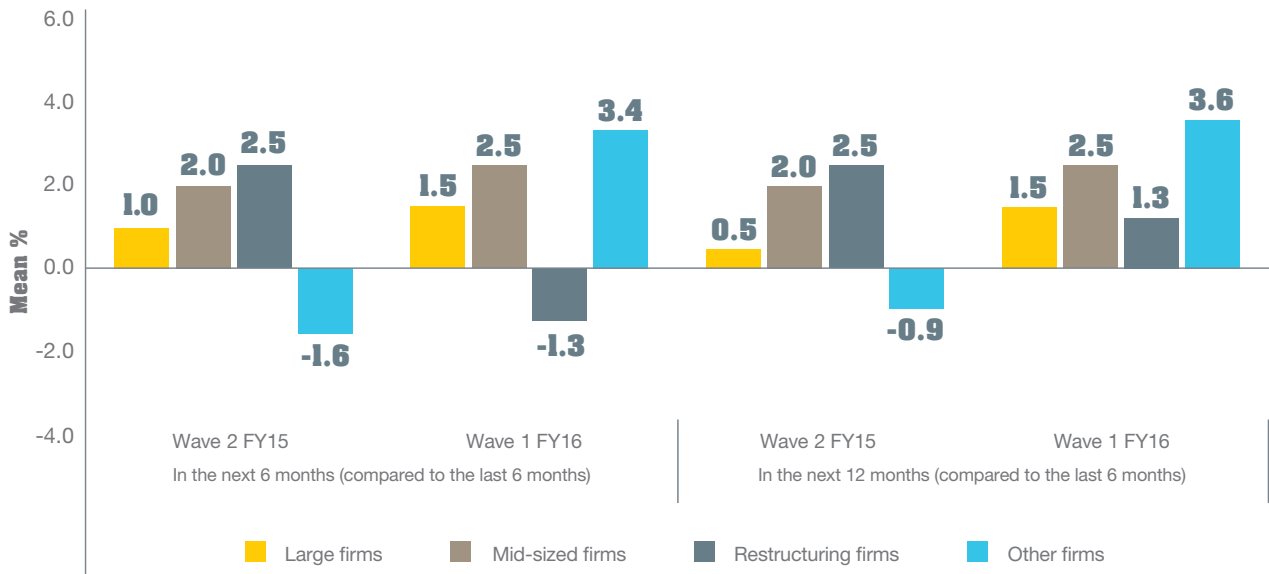




# Realised rates

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

All firm types except restructuring firms now have a more optimistic view on realised rates, compared to results in our previous report.

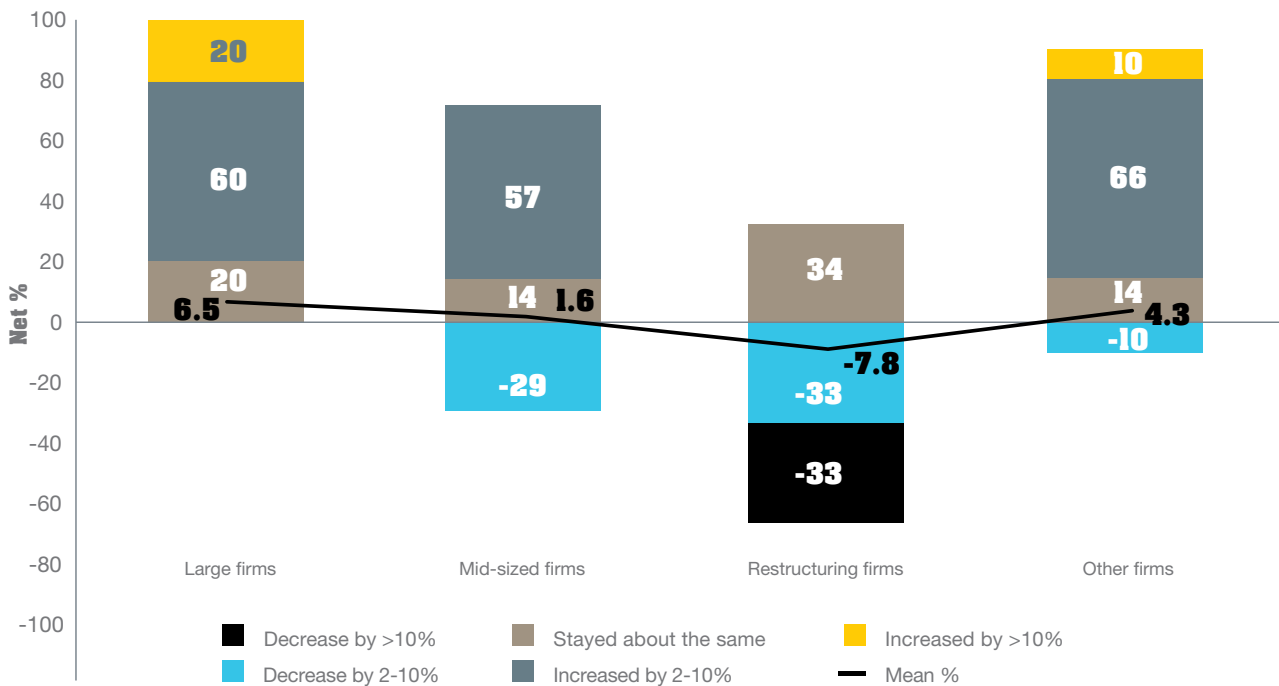




# Expense and profitability predictions

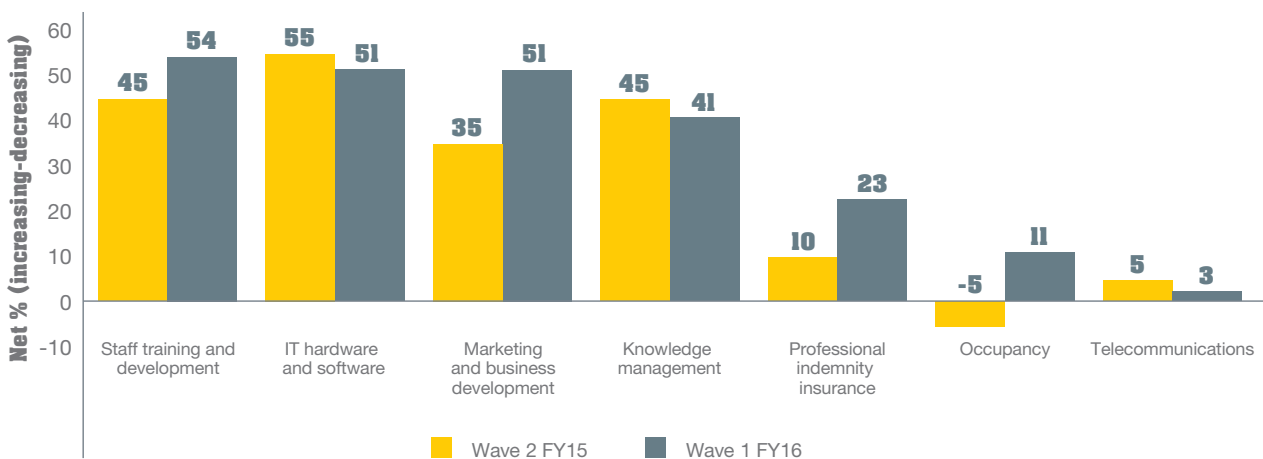
## Changes in total expenses from FY14 to FY15

Only restructuring firms had a net decrease in total expenses in FY15 compared to FY14.



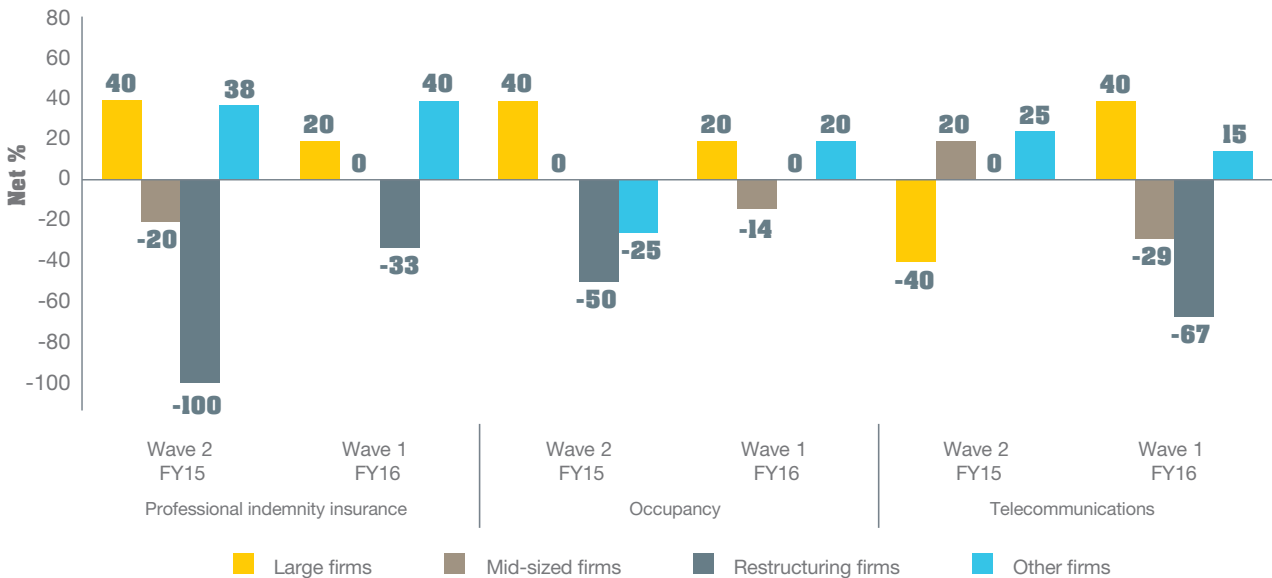
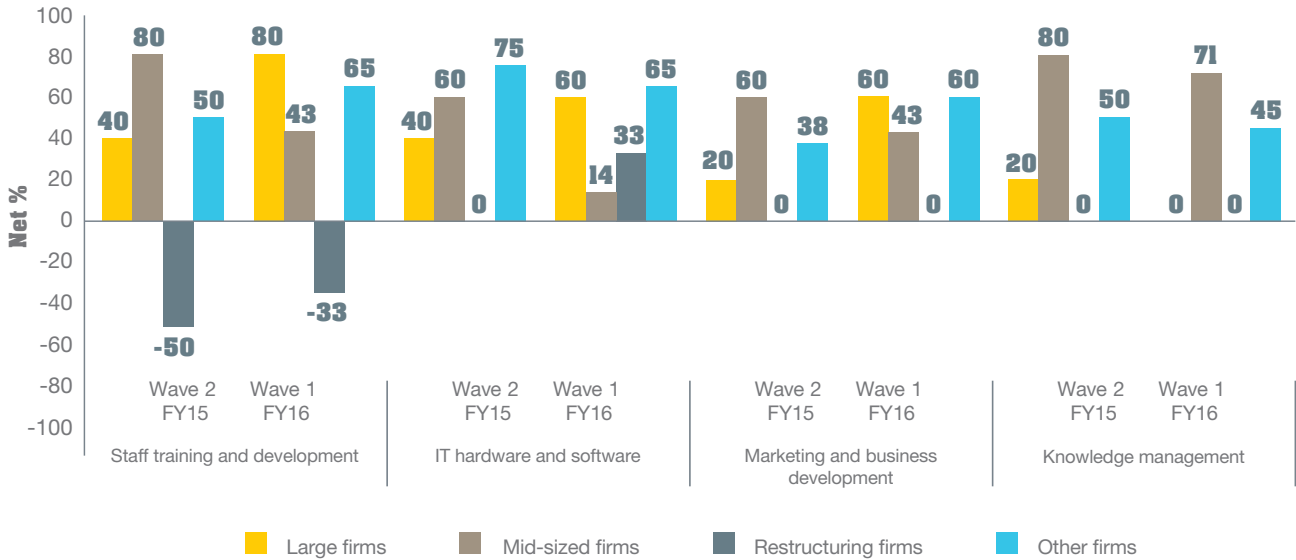
## Changes in expenses over the next 6 months

Accounting firm leaders realise the challenge of retaining existing staff, as well as acquiring new staff, and are anticipating an increased investment in staff training and development as a result.



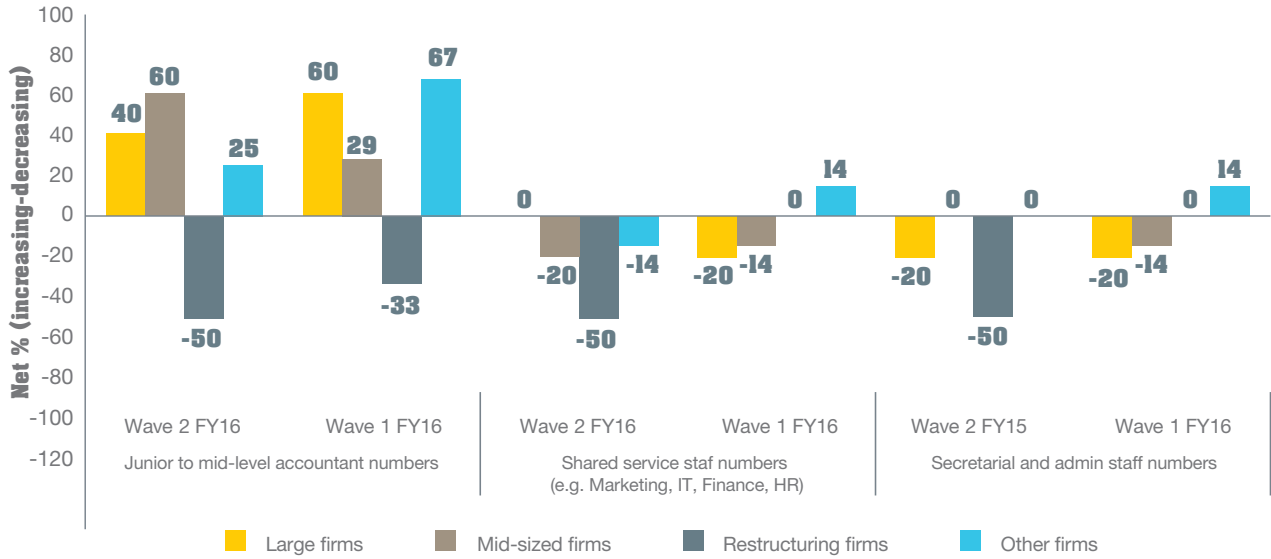
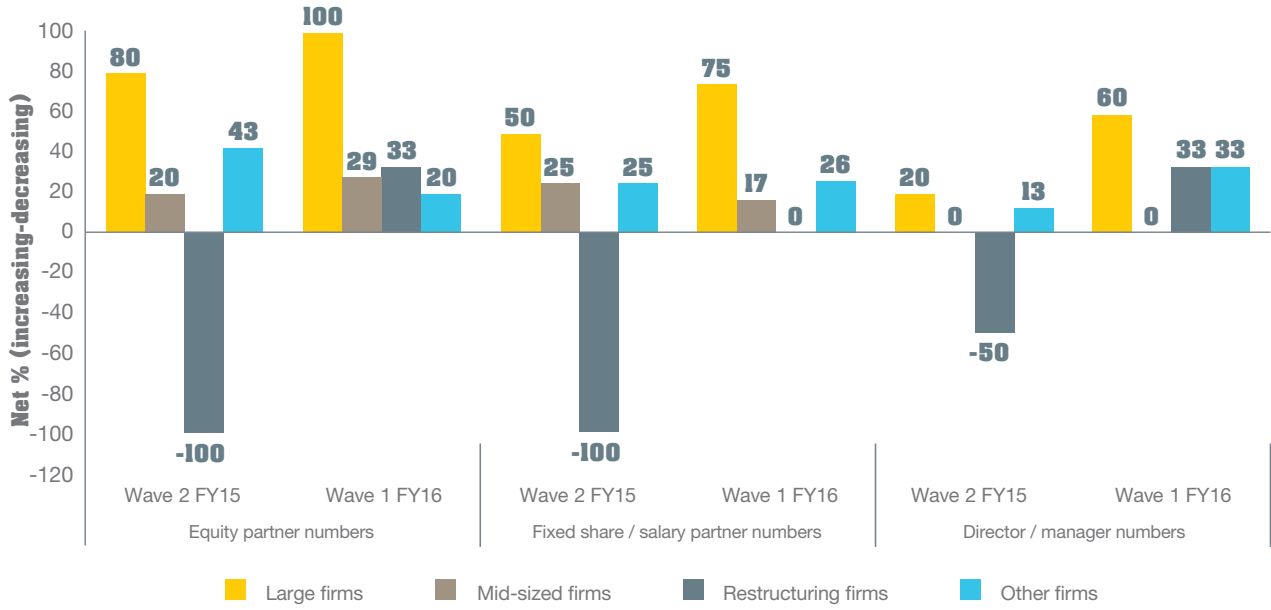
## Changes in expenses by segment over the next 6 months

The increased forecast in staff training and development expenses are being driven by large and other firms. Mid-sized firms are controlling expenses across most areas resulting in a lower net increase in expense compared to the previous report.



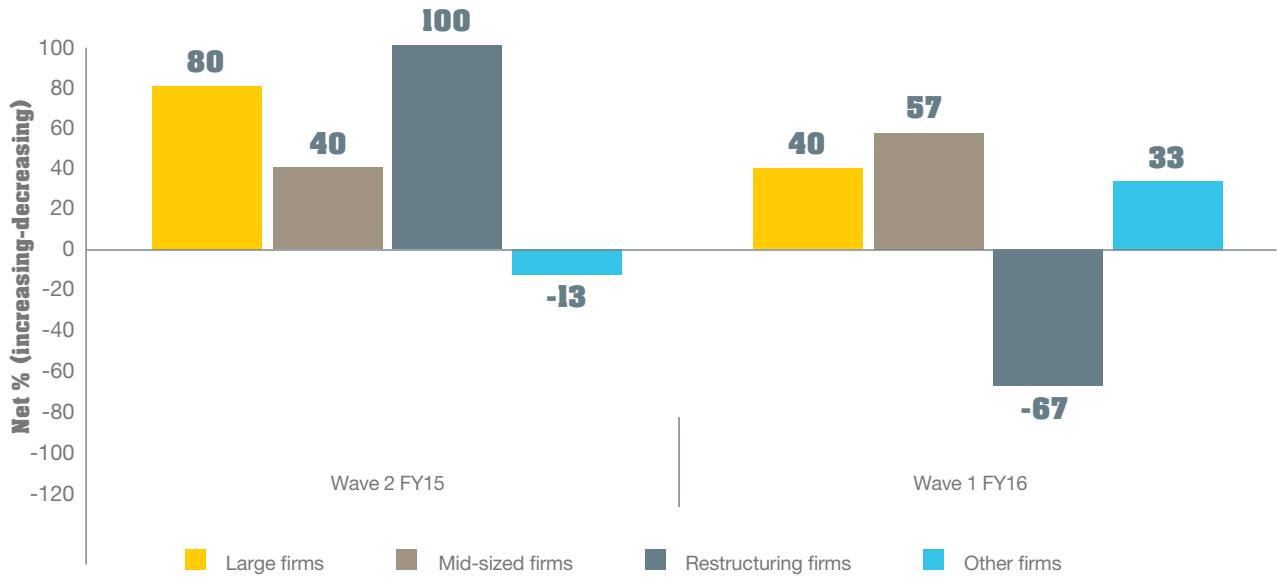
### Changes in staffing by segment over the next 6 months

A higher proportion of large firms expect fee-earning staff numbers to increase, compared to the previous report.



## Change in operating margins for the next 6 months

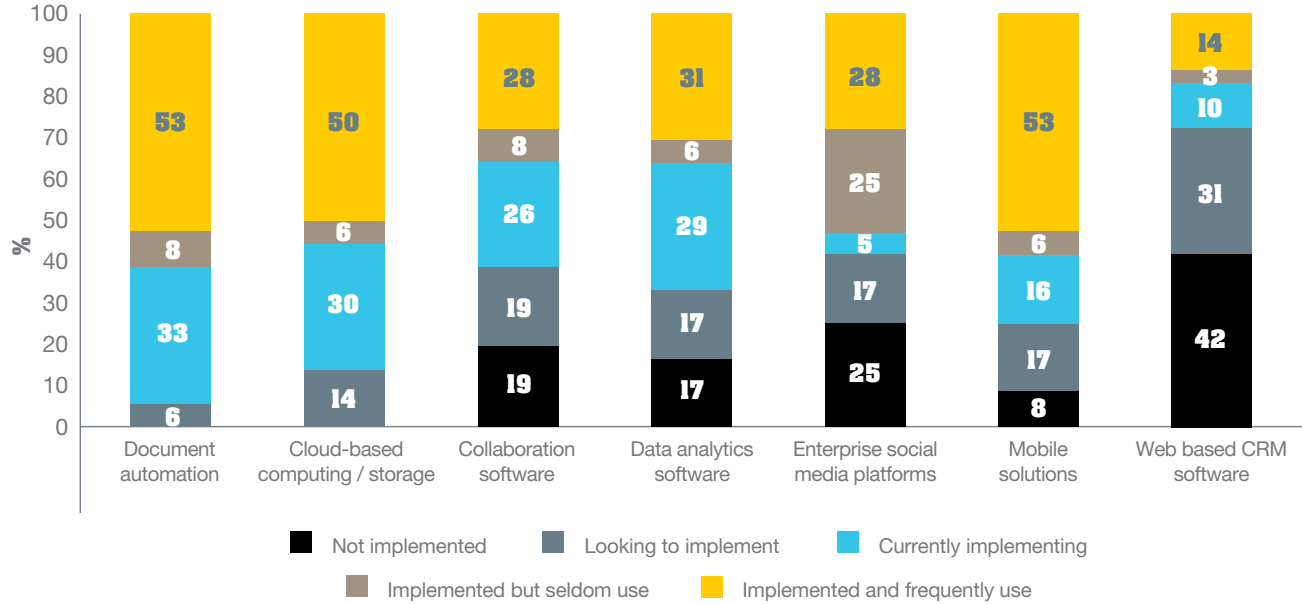
All firm types except restructuring firms are forecasting an increase in operating margins over the next 6 months.



# Adoption of technology

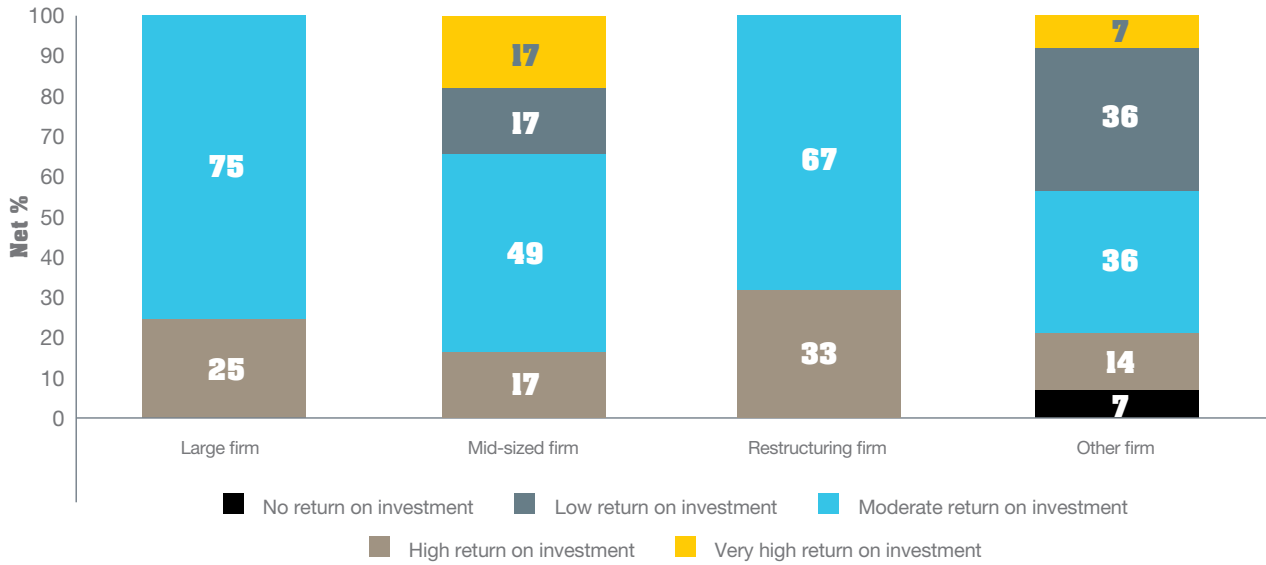
## Adoption and implementation of new technology – all firms

Mobile and document automation solutions have the highest adoption levels. Web based CRM software and enterprise social media platforms are the least likely technology solutions to be implemented in accounting firms.



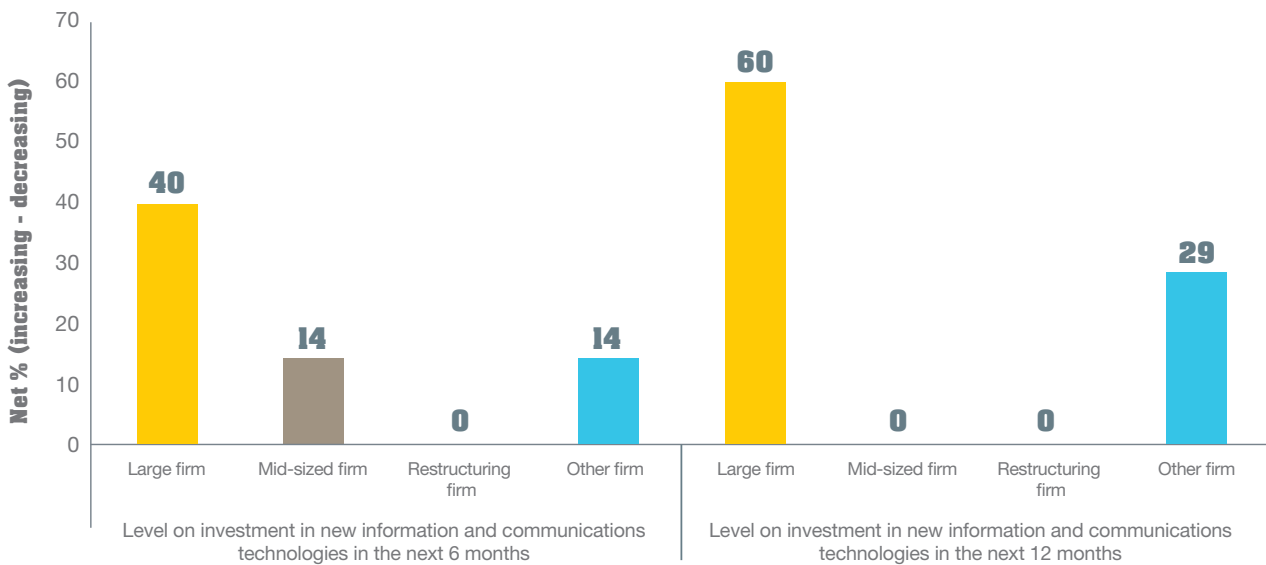
## Return on investment from new technology

Of the accounting firms who have adopted new technology, mid-sized and other firms have seen the highest return on investment.



## Plans to change the investment in new technology

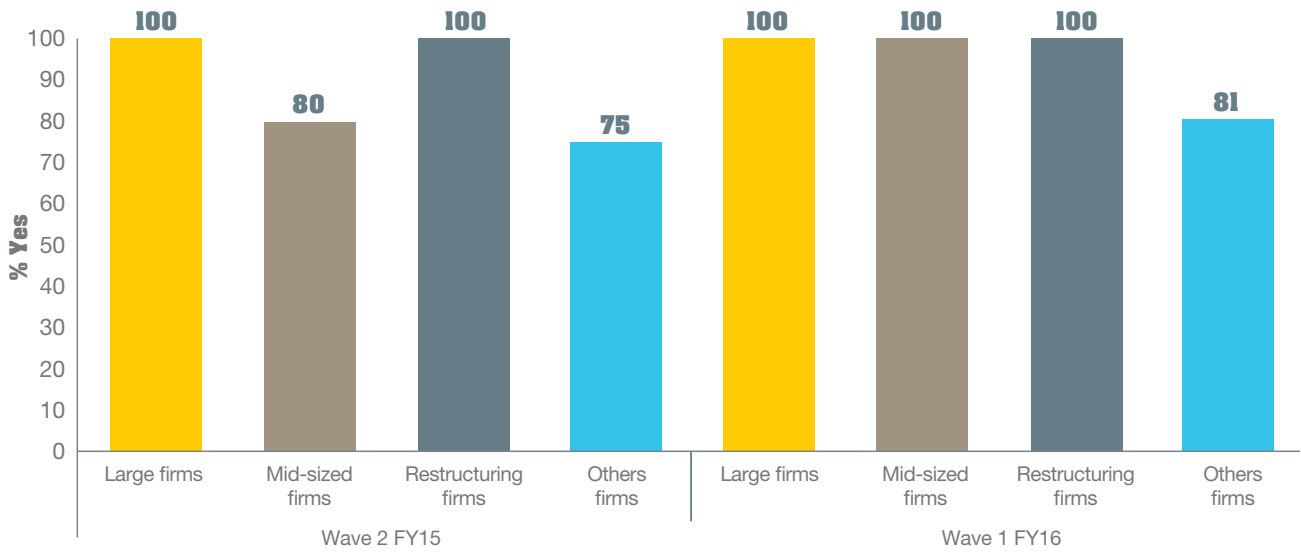
Large firms are most likely to invest in new technology over the next 6 and 12 months.



# Provision of non-accounting services

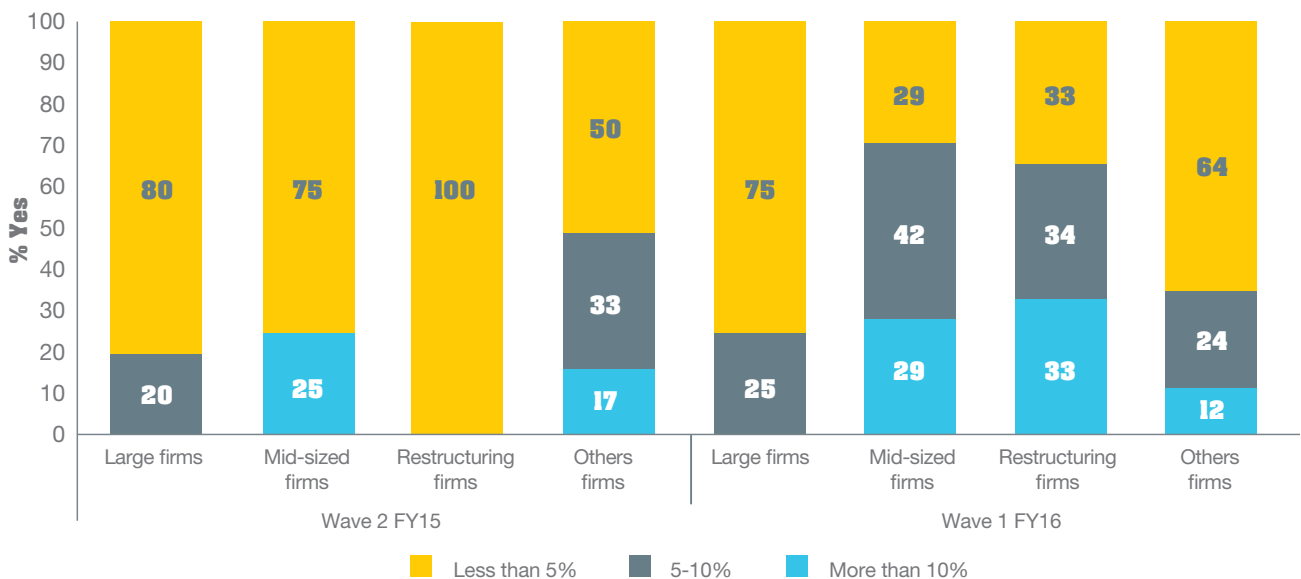
## Provision of non-accounting services

All large, restructuring and mid-sized firms currently provide non-accounting services.



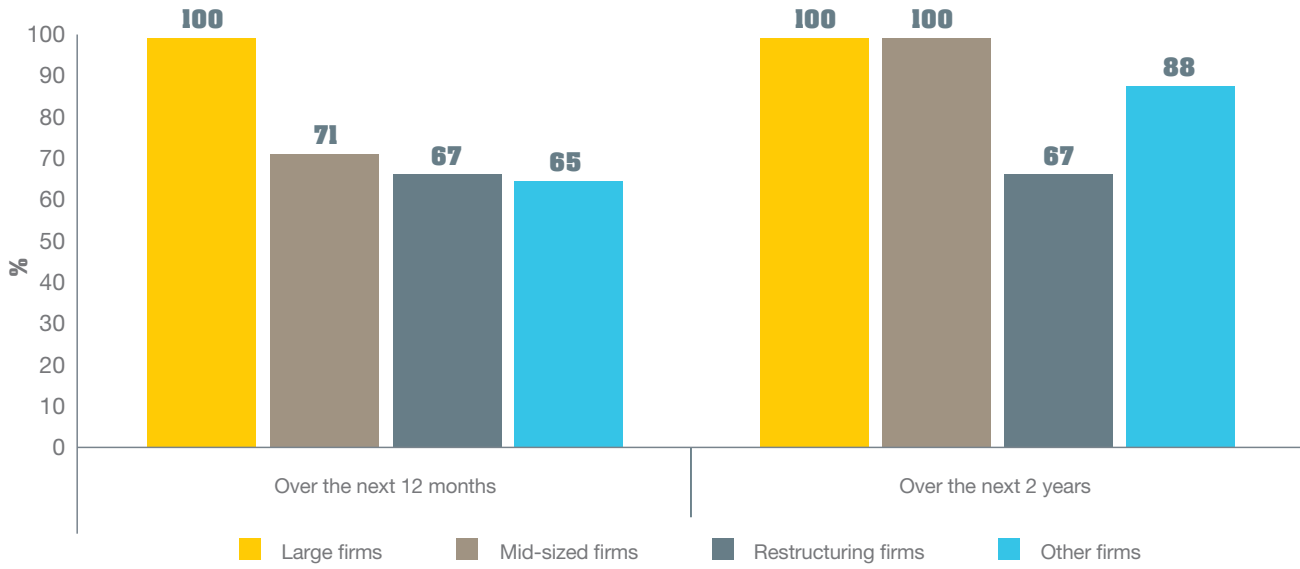
## Revenue from non-accounting services

Large and other firms have the highest percentage of revenue from non-accounting services, compared to the last report.



## Changes in revenue from non-accounting services

The majority of firms expect revenue from non-accounting services to increase, especially in the longer term.

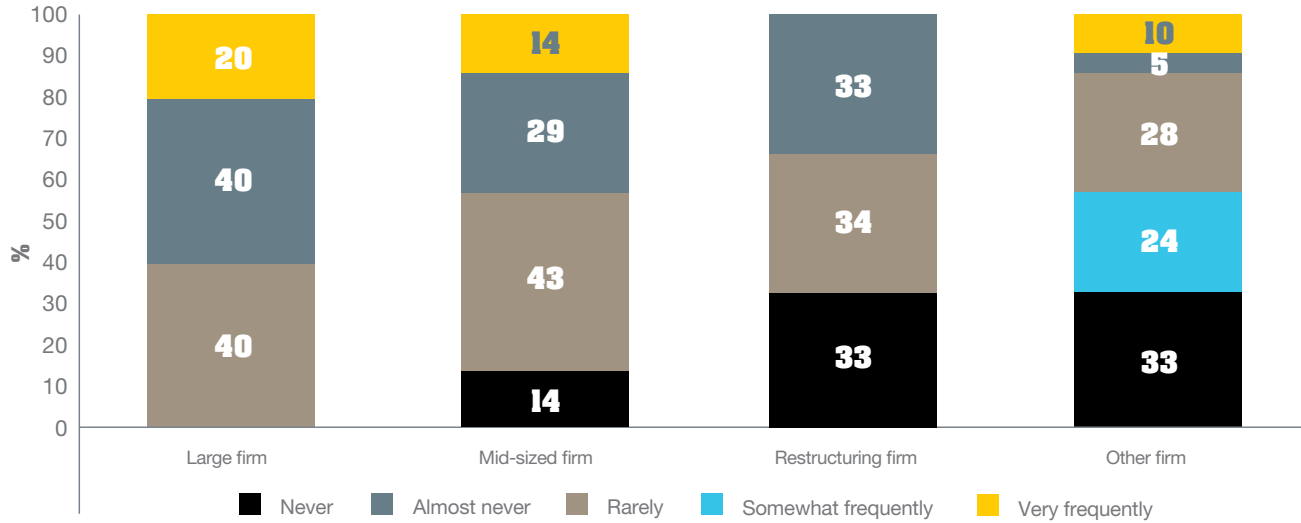




# Outsourcing and marketing

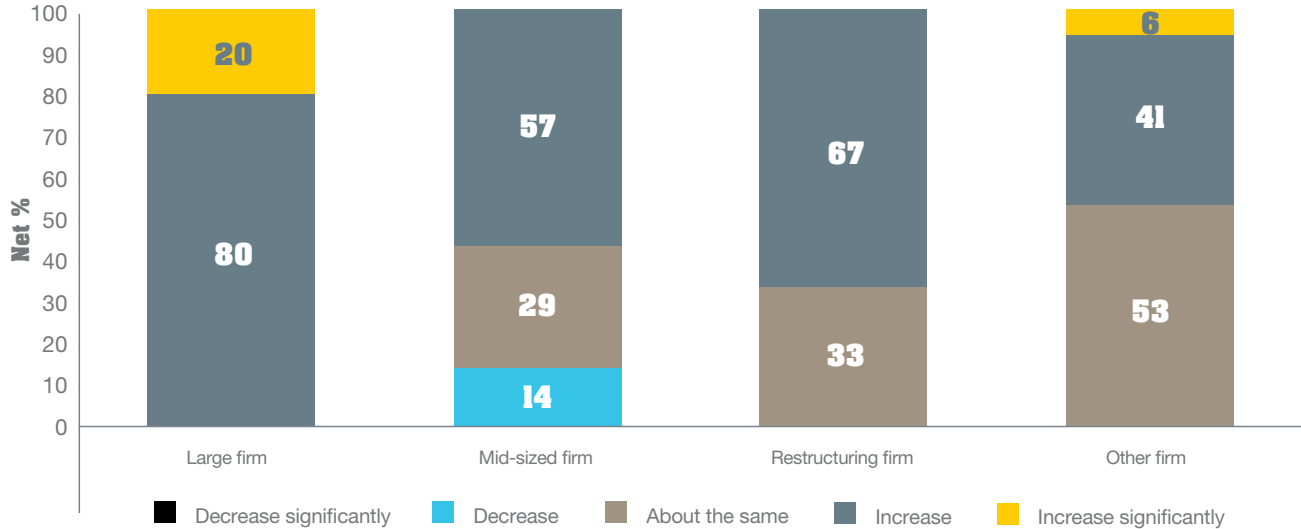
## Frequency of outsourcing to lower cost providers

Large and mid-sized firms are more likely to outsource their work to lower cost providers than restructuring and other firms.



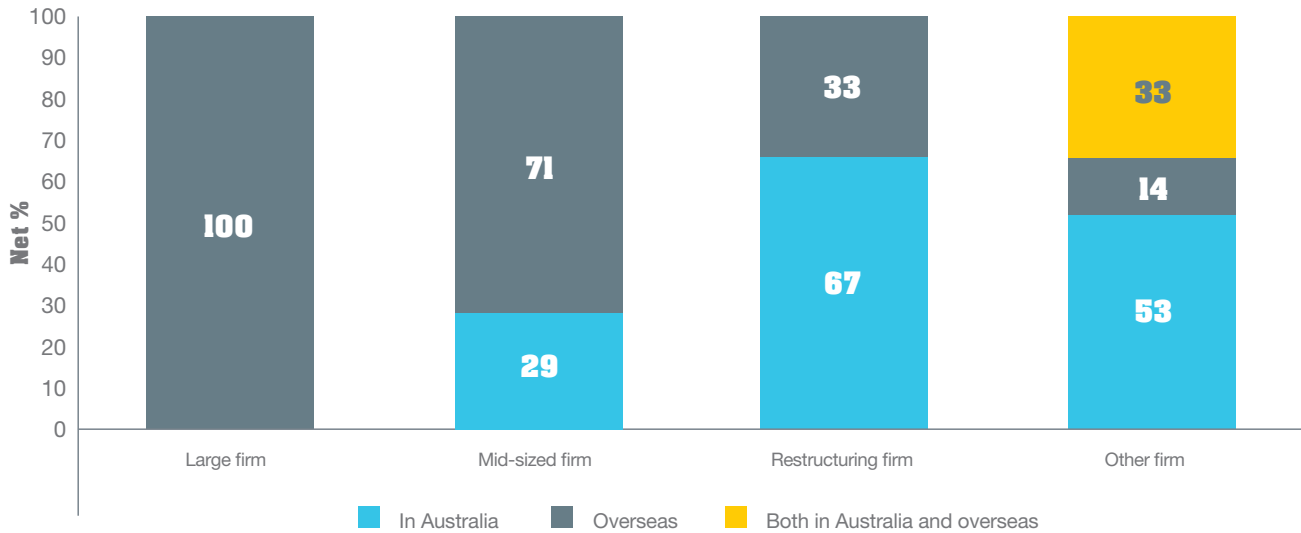
## Outsourcing work over the next 12 months

All large firm leaders forecast an increase in outsourcing work to lower cost providers over the next 12 months.



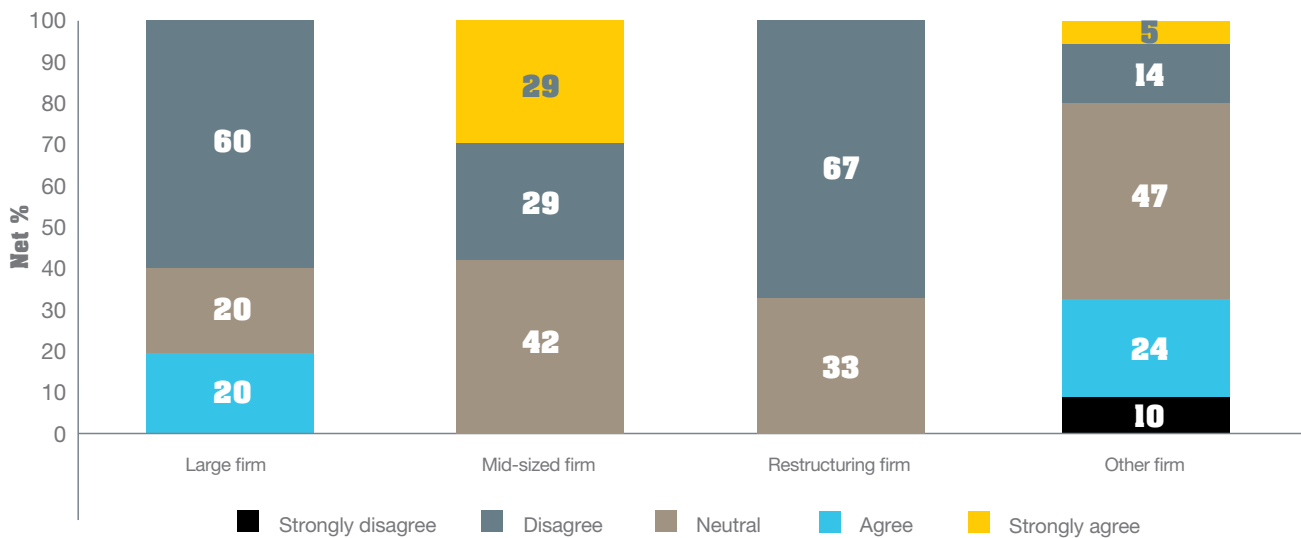
## Frequency of outsourcing to lower cost providers

Large and mid-sized firms are more likely to outsource their work overseas, whereas restructuring and other firms are more likely to outsource their work domestically.



## Is marketing on social media vital to the success of accounting firms?

Over half of accounting firm leaders across large and restructuring firms agree that marketing on social media is crucial to their firm's success.





# Further information

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