

# GLOBAL PRESSURE

Competition and commoditisation of services are proving problematic for the major networks, reports **Rachel Fielding**

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**T**he long-awaited global economic recovery may at last be here but hold the fanfare; the next 12 months is likely to be a bumpy ride for the world's largest accountancy networks and associations as fees come under pressure and competition grows.

On a positive note, global activity has broadly strengthened and is expected to improve further in 2014/15, according to the latest World Economic Outlook from the International Monetary Fund. However, there are concerns about a slowdown in emerging markets, particularly China, and a backdrop of uneven market conditions. At the same time a new operating environment shaped by regulation, globalisation and changing client expectations, has led many global accountancy chiefs to express only cautious optimism about the next 12 months.

The 25 largest accountancy networks and associations reported an aggregated 3.3% growth on last year's fee income figures to \$170.93bn (£106.4bn) in 2013, suggesting that despite the tough trading conditions, there are some growth opportunities. However, *Accountancy's* latest survey of the Top 25 indicates that a return to double digit growth as experienced before the 2008 crash is unlikely to materialise. While there are signs of a reasonable economic upturn, the challenge of translating that recovery into client spend is very real.

## GROWTH RATE DIPS

The rate of growth dipped for the second time since 2009 – from 5% last year to 3%, driven by downward pressure on fees, increased regulatory scrutiny and intense competition across the profession. The headline figures also

**£106.4bn**

Total fee income from the top 25 global accountancy networks and associations was up 3.3% on last year's fee income figures to \$170.93bn (£106.4bn)

continue to mask disparity between results; three networks and one association across the top 25 experienced a decline in fee income on the previous year, ranging from a 1% to 11% drop.

On a positive note, all but one of the top 10 – RSM International – reported an increase in fees, although these figures do not include numbers for Baker Tilly in the UK, which defected to the network in April this year and will formally join later in 2014 on completion of a notice period with Baker Tilly International.

Year-on-year growth rates among the remainder range from 9.8% at the top end (Praxity, the only association in the top 10) to just 1.8% at Big Four giant, PwC, in stark contrast to its 7.8% growth figure last year.

Indeed, disappointing growth at PwC to \$32.1bn resulted in the network losing its number one ranking as the world's largest accountancy firm to Deloitte, with fee income of \$32.4bn. EY came third with \$25.8bn, followed by KPMG with \$23.4bn.

While jostling for pole position continues, the Big Four have maintained their dominance of the market with two-thirds (67%) of the global accounting market share, unchanged from the previous year despite regulatory moves to reduce their stranglehold on the market.

Between them, they earned \$113bn in fees, up 3% compared with the combined revenues of \$110,260m earned in the previous year, adding clout to suggestions that the market for accounting services has turned something of a corner over the past 12 months.

#### CONSULTING WORK

Deloitte's rise to the top is mainly on the back of advisory work; the firm said consulting growth hit 8.7% in local currency. Deloitte chose not to follow the lead of PwC, which sold its consulting arm to IBM in 2002 – a decision that has since helped lift its revenues above those of its arch-rival. Just how long Deloitte can hold on to its narrow lead remains to be seen, as PwC's most recent consultancy firm takeover – US firm Booz & Co worth an estimated \$1bn in revenues – awaits regulatory approval. Last October PwC said it planned to spend \$1bn growing operations worldwide in the next three years, including client offerings such as cyber security and risk services.

PwC is not alone in hedging its bets on consultancy as a major stream of income growth. Strengthening demand for management consulting services and growing client demand for risk consulting helped deliver 6.5% growth in advisory revenues at rival Big Four firm KPMG.

Mid-tier players too are building their revenue base through consultancy services. At Baker Tilly International, 26% growth in consultancy services across all regions is, according to CEO and president Geoff Barnes, a result of 'clients seeking a more holistic approach to the services we provide them'. Overall, Baker Tilly International enjoyed modest 2.3% growth,



**“ Consolidation of the profession will gather pace, leaving only two or three substantial mid-tier networks globally**

*Martin van Roekel, CEO, BDO*

despite or perhaps because of the distraction of having to replace its UK member firm. Barnes is putting on a brave face and maintains that the network is stronger than any single firm. However, Baker Tilly's departure will leave a huge gap in the network's portfolio, prompting questions about how Baker Tilly International plans to rebuild its UK presence. There is talk that it will have to take more of a fragmented approach, signing up smaller firms under an extended BTI brand.

#### CONSOLIDATION

Meanwhile, consolidation across the sector continues. Around forty of 16th ranked PKF International's members in the US alone have been involved in merger activity during the last year and new firms have been recruited in countries including China, the UK, Australia, South Africa, Bulgaria, Belgium and Luxembourg. John Sim, CEO of PKF International, said that the emphasis was very much 'on quality over quantity'.

He also said that a 'year of transition' for PKF International is paying off, despite fee income across the network falling 5.6% on the previous year. 'In addition to our core business serving owner managed businesses we are winning » 12



# TOP 10 INTERNATIONAL NETWORKS AND ASSOCIATIONS 2014

## 1 Deloitte

**\$32.4bn (\$31.51bn) + 3.5%**

The jostling for top spot this year resulted in Deloitte overtaking arch-rival PwC to become the world's largest accountancy firm. The US, the largest member firm in the network, contributed more than 80% of the network's total revenue increase driven by strong growth of advisory and technology services revenues. In FY13, the network hired 51,400 professionals bringing its total workforce to in excess of 200,000 professionals.

## 2 PwC

**\$32.09bn (\$31.51bn) +1.8%**

After five years of sluggish growth, fee income increases struggled to reach 2% for the year ending 30 June 2013. Nonetheless, PwC says the economy is starting to turn a corner, particularly in the US, Japan and even Europe. The firm's advisory service line helped buoy the figures, with a growth rate of around 8%, while PwC's tax practice enjoyed global growth of around 5%. A 238 boost to partner numbers brought the headcount up to 9,597 in 2013.

## 3 EY

**\$25.8bn (\$24.42bn) +5.7%**

Under a new global brand, logo and tagline 'building a better working world', combined global revenues of \$25.8bn for EY's financial year ended 30 June 2013 represent a 5.7% hike in fee income on the previous financial year. In local currency terms, the firm says a 7.7% increase in revenues marks EY's fastest growth since 2008. All service lines and geographies continued to grow revenues and headcount – now at an all-time high of 175,000. Financial accounting advisory services grew by 30%.

## 4 KPMG

**\$23.42bn (\$23.03bn) +1.7%**

Accelerated growth in the second half of the year driven by the first widespread signs of economic confidence returning to clients drove up aggregated revenues to \$23.42bn. Total advisory fees for the year were up by 6.5% to \$8.24bn, largely due to 14.2% growth in management consulting fees. Intense competition for audit contracts resulted in an audit revenue increase of just 1.2% to \$10.21bn. KPMG's global workforce grew 3,000 more than 155,000 partners and staff, the highest number ever employed by the network.

## 6 GGI

**\$4.59bn (\$4.39bn) +4.7%**

The multidisciplinary organisation has boosted member numbers by 60 in the last year, increasing GGI's global reach from 101 to 114 countries. Revenue was up 4.7% in 2013 with the US driving growth. It has opened an office in Boston and appointed a regional CEO as part of a strategy to expand the North American presence – it has 110 offices in the region, compared to four in 2008. Advisory services are an important revenue earner for the group, while legal practices make up 40% of membership.

## 7 Grant Thornton

**\$4.52bn (\$4.18bn) +8.1%**

Overall growth may have slowed slightly from last year's impressive double digit levels but Grant Thornton International has retained its 7th place in the rankings with sizeable 8.1% increase in fee revenue. The number of member firms increased by just two in the last year, however the number of offices displaying GTI branding is up by 58 with the network now represented in 14 more countries. Partner numbers were up by 68, but the number of professional staff fell by 22% on last year to 21,052.

## 8 Praxity IVZW

**\$4.08bn (\$3.72bn) +9.8%**

Last year, Praxity member firms struggled collectively to hit fee income growth of 1%. This year it is a different story with the global alliance of independent firms posting the largest year-on-year growth of the top 10 with a 9.8% annual revenue upturn. No wonder then that Praxity's 68 member firms have much to celebrate as they move up the rankings one place. The alliance has also increased its geographic reach, now represented in 98 countries across 559 offices.

## 9 RSM Intl

**\$3.71bn (\$3.99bn) -7%**

Following two consecutive years of fee increases of just 1%, the network this year became the only Top 10 player to report a slump in fee income compared with the previous year, and shift one place down the rankings. However, figures do not include numbers from Baker Tilly in the UK, which joined the network in April. Partner numbers are down 8% to 2,871 alongside a 1% reduction in professional staff headcount to 23,657. The network operates across 702 offices in 106 countries.

multi-location assignments for global companies and finding the Big Four as our competitors. International connectivity is being demanded by clients of all sizes and is no longer "a nice thing to have", it is a "must have".

Martin van Roekel, CEO of fifth ranked network BDO, believes global consolidation of the profession will gather pace, 'leaving only two or three substantial mid-tier networks globally'. He said the network's 7.3% increase in fee income to \$6.45bn created an opportunity for future mergers.

'Clients today are looking for more than number and standard service delivery. Small and medium-sized companies are increasingly seizing opportunities for international expansion and so

require professional services firms with the ability to invest in expertise, global infrastructure and processes to help them navigate risk across the global market,' van Roekel added.

The continuing shift towards advisory services has been driven at least in part by a challenging and intensely competitive global audit market and continuing fee pressure on audit fees. 'Pricing doesn't match the level of effort that needs to go into providing these services,' complains Rob Tautges, CEO of 19th ranked HLB International.

At KPMG, a slight rise in global audit revenues of 1.2% to \$10.21bn was helped by significant audit appointments during the last year including Panasonic, PetroChina and

## 5 BDO

**\$6.45bn (\$6.02bn) +7.3%**

A focus on expansion helped BDO grow global revenues by 7.1% to \$6.45bn. The network completed more than 20 strategic mergers to augment organic growth, with BDO now represented in 144 countries, six more than in the previous year. BDO's UK member firm merged with PKF in March, resulting in a firm of 3,500 people with revenues approaching £400m. Fee splits remain similar to previous years, with audit and accounting making up 59% of revenue, tax services bringing in 20% and advisory services 21%.

## 10 Baker Tilly

**\$3.4bn (\$3.32bn) +2.6%**

Growth of 26% on consultancy services provided by member firms helped boost fee income at Baker Tilly International by 2.4%, despite losing UK firm Baker Tilly to rival network RSM International. The global network is now represented by 161 independent member firms across 738 offices – up from 672 last year. Similarly the geographic reach of the network has also extended – now represented in 137 countries around the world. Both partner and professional staff headcount increased by 4% in the last 12 months.

Unilever. Amid anecdotal concerns about the impact of fee pressure on audit quality, the firm said it maintained a 'vigorous commitment' to continuous improvement. 'We have invested over \$225m in audit over the past five years and plan to invest at least as much again in the next five years,' KPMG International chairman Michael Andrew says.

But the audit market is under investigation with regulatory bodies around the world probing audit practice at a number of high profile firms. There is tough competition for business and the firms have responded with investment in audit services from Deloitte investing to 'shape the audit of the future' and piloting extended audit reports, to EY spending \$400m on improving its

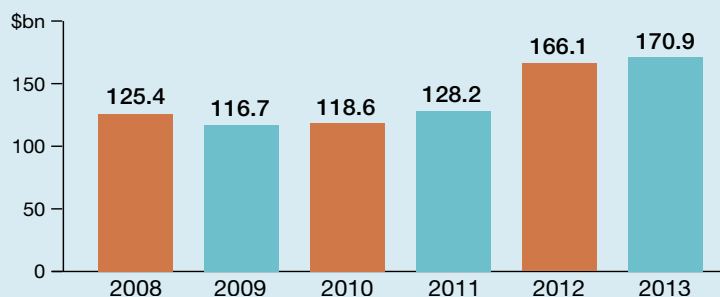
### FINANCIALS

#### TOP TEN: FEE INCOME (\$BN)

Rank	Firm	2013 \$bn	Variance \$bn	Y-o-Y var %	2012 \$bn	2011 \$bn	2010 \$bn	2009 \$bn
1	Deloitte	32.40	1.10	7.8	31.30	29.22	26.56	26.17
2	PwC	32.09	0.58	8.7	31.51	28.80	26.65	26.10
3	EY	25.83	1.41	6.8	24.42	22.80	21.25	21.40
4	KPMG International	23.42	0.39	1.4	23.03	22.71	20.63	20.11
5	BDO	6.45	0.44	6.2	6.02	5.67	5.28	5.02
6	GGI Global Alliance	4.59	0.21	2.3	4.39	4.29	4.22	4.05
7	Grant Thornton International	4.52	0.34	10.3	4.18	3.79	3.87	3.87
8	Praxity IVZW	4.08	0.36	1.0	3.72	3.95	3.67	3.59
9	RSM International	3.71	-0.27	0.9	3.99	3.69	3.38	3.27
10	Baker Tilly International	3.40	0.08	3.0	3.32	3.22	3.07	3.13
<b>Total fee income</b>		<b>140.50</b>	<b>4.64</b>	<b>3.4%</b>	<b>135.88</b>	<b>128.14</b>	<b>118.58</b>	<b>116.71</b>

### FINANCIALS

#### TOP 25: TOTAL REVENUE (\$bn)



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*Michael Andrew, chairman, KPMG International*

audit methodologies and tools to improve the quality of its audits.

While KPMG's investment is substantial, the network has slipped further from its nearest rival EY, with a growing gap in revenues between the firms. The gap between third-ranked EY and fourth-placed KPMG has increased by more than \$1bn in the past year to \$2.41bn. In 2011, the fee income difference between the firms was only \$170m.

Brian Bannister, KPMG International's head of global communications, maintains that significant investment and improvements to operating efficiencies will produce long-term growth. 'The network is almost half way through a five-year global investment programme totalling around \$1bn focused on our core global audit platform, high-growth markets

## DIVERSITY

## WOMEN AT THE TOP – LACK OF PROGRESS

On paper at least, women have never been in a stronger position to lead, change and shape the economic, social and political landscape. But despite political intervention, the accountancy gender divide is clear across the world.

It is three years since Lord Davies challenged the UK's top companies to recognise the benefits of gender equality in the boardroom and to take action to address the imbalance. Since then, it is fair to say a shift has occurred; among the FTSE 100, the number of women on boards has increased from 12.5% in 2011 to 20.7% today, according to Cranfield School of Management. Among the FTSE 250 the proportion has increased from 7.8% to 15.6% over the same period.

But with the number of women heading up global networks and associations still in single digits, and the percentage of women on the boards of European accountancy firms stagnant at around 12%, the profession is under pressure to change.

Solid reporting on gender statistics has to be the starting point to implementing strategies and tracking their progress. And yet with an obvious dearth of diversity reporting beyond Europe and US, the 'ignorance is bliss' mantra holds



all too true. Of the top 25, just eight (32%) reported female partner numbers and the average percentage of female partners at those firms is around 15%, with individual firms' quotas ranging from 21.2% at the high end (Praxity) to 8.9% in the case of IAPA. Deloitte's 20% figure includes directors at the firm.

A further two held their hands up

and admitted they did not even know. It speaks volumes about the attitude to the gender issue when 40% of the biggest firm respond with a 'not available'.

But the malaise goes deeper. KPMG's UK senior partner Simon Collins recently admitted that the firm is guilty of failing to create an environment conducive to female staff moving into partnership.

'Firms need to think of it not as a social issue but as a bottom line issue,' says Rob Tautges, CEO of HLB, who admits it is difficult to extract gender statistics from member firms in developing countries. 'Sharing best practice is key,' he adds.

Rick Anderson, Praxity chairman, says the issue represents an opportunity for those that take action: 'Fifty per cent of the people going into accountancy are women so we have to retain and advance them. Our clients want us to look like they do.'

Jean Stephens, CEO of RSM International, is confident the issue is firmly on the global radar. 'Diversity makes for better decision making and that is absolutely critical for us. There is obviously a supply and demand issue, and you need to have the right environment where diversity is valued,' Stephens says. 'But women also need to step up.'



## HOW WE COMPILE THE TOP 25 TABLE

Figures are collected from annual reviews and reports, network websites and directly from firms. As in previous years, a number of multidisciplinary practices with member firms that exclusively practise law, have been included. Other networks that are not strictly multidisciplinary also offer services such as stockbroking and financial advice, arguably outside the 'traditional' view of accountancy services.

and developing new services such as data and analytics,' said Bannister.

But bullish statements aside, the Big Four networks continue to hire new talent and increase the number of professional staff, a sign that there is quiet confidence about future demand for services. Between them, they now employ 627,180 professional staff around the world, an increase of more than 54,000 in 12 months.

This year MSI Global Alliance, whose UK member firms include Haysmacintyre and Armstrong Watson, slipped out of the top 25, from their 2012 ranking at number 22. Despite an 11.8% increase in fee income, the association dropped to 29th place in the overall rankings.

Amid some jostling for position, the only new entrant to the top 25 this year is Morison International. The association of independent firms operates across 247 offices with a significant global reach in 63 countries. This year's survey showed that its 93 member firms generated a combined fee income of \$771m.

## GLOBAL PROSPECTS

Coming off five years of sluggish growth, much is made of the slowdown of the Chinese economy. Certainly, the growth of populations and middle classes is driving a shift in focus from developed to developing nations. PwC

expects its network revenues from developing countries to double over the next five years or so. It is by no means alone.

'Africa is a real target, primarily because of natural resources and mining. In China we think there will be a giant trend of outbound work so our approach is to have a strong presence through a federation of firms,' explains Rob Tautges, CEO of HLB International. Brazil and Latin America are also earmarked for strong growth going forward.

Rick Anderson, chairman of Praxity, agrees that developing nations represent a huge potential opportunity for firms but warns that the economies are developing quicker than the professions in certain geographies. 'Finding the right people is a challenge,' he warns.

And while serious competition from Chinese networks and associations may not yet be a reality, the question seems to be not 'if' but 'when'. Michael Reiss von Filski, CEO of sixth ranked GGI Global Alliance says there is space for an aggressive Chinese firm to grow and become a top 20 or 30 player. 'At the moment, firms won't join a Chinese network unless they believe they will get a lot of business out of it or unless they have a strong connection to China. I don't know how long it will take but it's only a matter of time.'



## TOP 25

## INTERNATIONAL NETWORKS AND ASSOCIATIONS 2013 (2012)

Rank	Network or association /UK affiliates	Fee income (\$m)	Member firms		Offices	Countries	Partners	Female partners	Professional staff	Year end	Status
			2013	2012							
1 (2)	<b>Deloitte</b> Deloitte LLP	32,400	31,300	47	677	150	10,189	2,038	157,505	May 13	N
2 (1)	<b>PwC International</b> PwC UK LLP	32,088	31,510	n/a	776	157	9,597	1,583	174,638	Jun 13	N
3 (3)	<b>Ernst &amp; Young</b> Ernst & Young LLP	25,829	24,420	n/a	700	150	9,468	n/a	140,037	Jun 13	N
4 (4)	<b>KPMG</b> KPMG UK LLP	23,420	23,030	155	n/a	155	8,664	1,646	155,000	Sep 13	N
5 (5)	<b>BDO</b> BDO LLP	6,453	6,016	104	1,264	144	4,908	n/a	48,369	Sep 13	N
6 (6)	<b>Geneva Group International (GGI)</b> Citroen Wells, Haines Watts, Lawrence Grant	4,593	4,386	448	651	114	3,157	n/a	22,188	Dec 13	AIF, M
7 (7)	<b>Grant Thornton International</b> Grant Thornton (UK) LLP	4,519	4,182	126	696	132	2,907	489	21,052	Sep 13	N
8 (9)	<b>Praxity – Global Alliance<sup>1</sup></b> Mazars UK, Albert Goodman, PM+M, see below	4,083	3,720	68	603	98	2,711	576	25,425	Various	A
9 (8)	<b>RSM International</b> Baker Tilly (UK) from autumn 2014	3,714	3,987	111	702	106	2,871	n/a	23,657	Dec 13	N
10 (10)	<b>Baker Tilly International</b> Baker Tilly (UK) until autumn 2014	3,404	3,317	161	738	137	2,754	460	19,754	Jun 13	N
11 (12)	<b>TAG Alliances<sup>2</sup></b> Anderson Anderson & Brown, Blake Lapthorn, Boodle Hatfield, Brown Craine & Co, see below	3,200	3,025	271	542	94	n/a	n/a	15,725	Dec 13	AIF, M
12 (11)	<b>Crowe Horwath International<sup>3</sup></b> Crowe Clark Whitehill, Horwath HTL, see below	3,168	3,078	191	684	118	3,352	n/a	21,363	Dec 13	N
13 (13)	<b>Nexia International<sup>4</sup></b> Cunningham Coates, Jones Peters, see below	2,918	2,827	220	604	100	2,700	n/a	15,775	Jun 13	N
14 (14)	<b>LEA Global/Leading Edge Alliance</b> CLB Coopers Manchester, Francis Clark, HW Fisher & Co, Streets	2,909	2,723	215	586	102	2,056	n/a	16,640	Dec 13	A
15 (12)	<b>Moore Stephens International</b> Moore Stephens LLP	2,682	2,283	307	667	105	2,636	n/a	19,595	Dec 13	N
16 (15)	<b>PKF International</b> PKF Littlejohn, PKF Cooper Parry, PKF Johnston Carmichael	2,523	2,674	219	464	115	2,660	n/a	15,383	Jun 13	N
17 (18)	<b>Kreston International<sup>5</sup></b> Simpson Forsyth, Duncan & Toplis, see below	1,945	1,964	181	623	108	1,504	n/a	15,645	Oct 13	N
18 (17)	<b>PrimeGlobal<sup>6</sup></b> Atkinson Donnelly, Buzzacott, CK Chartered Ac	1,806	2,029	320	793	87	2,063	n/a	13,133	May 13	A
19 (20)	<b>HLB International<sup>7</sup></b> Beever and Struthers, Evolution Business & Tax Advisors, French Duncan, Hawsons, see below	1,679	1,571	247	455	115	1,701	n/a	12,090	Dec 13	N
20 (19)	<b>AGN International</b> Crowe Morgan, Dixon Wilson, Hazlems Fenton, Shipleys	1,667	1,603	202	476	92	1,306	n/a	8,155	Oct 13	A
21 (21)	<b>Fiducial International</b> Westbury, and others	1,632	1,550	n/a	1,096	78	n/a	n/a	15,291	Sep 13	MDA
22 (23)	<b>BKR International</b> Blick Rothenberg, Cassons, Harbinson Mulholland, UNW	1,360	1,330	157	587	80	1,515	n/a	8,702	Jun 13	A
23 (24)	<b>DFK International</b> Chantrey Vellacott	1,093	1,083	212	388	82	1,194	129	7,869	Apr 14	A
24 (25)	<b>IAPA<sup>8</sup></b> Cowgill Holloway, Price Bailey, Wilkins Kennedy, see below	1,073	1,057	215	328	70	1,091	97	4,293	Mar 13	A
25 (-)	<b>Morison International<sup>9</sup></b> MHA MacIntyre Hudson	771	727	93	247	63	832	n/a	6,359	Dec 13	A
	<b>Total</b>	<b>170,930</b>	<b>165,392</b>					<b>7,018</b>	<b>983,643</b>		

**Member firms cont'd:** 1 Forrester Boyd, Rouse Partners, Brand Finance, Springford's, Jackson Andrews; 2 Burgis & Bullock, Burness Paul & Williamsons, Clarkslegal, Dougherty Quinn, DTE Grp, Elliott Duffy Garrett, Goldblatt McGuigan, HSOC, Kuit Steinart Levy, LK Shields Sol, Mercer & Hole, Old Mill, Voisin, Volaw; 3 Crowe Horwath Global Risk Consulting; 4 Meston Reid & Co, Saffery Champness, Scrutton Bland, Smith & Williamson, Nexia Smith & Williamson; 5 Bishop Fleming, Peters Elworthy & Moore, Reeves & Co, Barber Harrison & Platt, Clive Owen & Co, EQ, Mitchell Charlesworth, James Cowper, Horsfield & Smith, Barber, Harrison & Platt; 6 Clement Keys, Cooper Parry Grp, Creaseys Grp, FPM, French Duncan Chartered Accountants, Hall Morrice Chartered Accountants, Hurst, Littlejohn, Simmons Gainsford, Thomas Westcott, Woolford & Co; 7 Hazlewoods, Lovell Blake, Menzies; 8 Clark Howes Grp 9 New entrant

Key: A: Association N: Network AIF: Alliance of independent firms M: Multidisciplinary MDA: Multidisciplinary associations, inc legal firms