

SEGMENTATION

PRODUCTS AND SERVICE SEGMENTATION

Product/Services	Share
Smaller Operators	58.0%
Big Four	28.0%
Second Tier	14.0%

▪ In 2001-02, the industry generated 36.7 per cent of revenues from business taxation, but this varied from around 50 per cent from small operators to around 24 per cent for the largest ones. 18 per cent was generated from personal, accounting and taxation, which again varied from around 30 per cent for small operators to 7 per cent for the largest ones. Auditing and assurance revenues accounted for 16.5 per cent of the total, but varied between 4 per cent and 32 per cent between the two size groups and management and business consulting accounted for 12.1 per cent overall, but between 6 per cent and 18 per cent depending on firm size. Generally, insolvency, reconstruction and bankruptcy related revenues accounted for just over 6 per cent of total industry income, financial planning and investment advice for around 2.8 per cent and with the remainder derived from other service areas.

The industry can also be divided into three main groups: the Big 4, the Second Tier and the smaller operators and bookkeepers.

- In September 1997, a merger between Coopers and Lybrand and Price Waterhouse was announced and this was expected to be the last approved merger by the ACCC among the Big 4 firms due to competition concerns. However, the flow through effects of the Enron collapse and Andersen in the US, meant that Ernst & Young merged with Andersen in Australia.
- In June 2000, the SEC in the USA issued new draft regulations which barred accounting firms from providing consulting services to companies which they audit. The companies had until September 2000 to comment on these draft regulations. The regulations also barred accounting firms from performing consulting work or bookkeeping for clients and from designing and implementing hardware or software systems which generate essential information for the audit client's financial statements, as well as barred the firms from offering appraisal and actuarial services.
- The above resulted in a split off of Andersen Consulting (later Accenture) from Andersen Worldwide (now defunct).
- In late-2000, KPMG's US consulting arm was expected to publicly list, at an estimated value of around US\$4 billion. This subsequently occurred in early 2001. In September 2001, the Australian consulting arm of KPMG was sold to KPMG Consulting LLP.
- In 2000-01, Ernst & Young sold its consulting arm to French technology company, Cap Gemini and the new firm, Cap Gemini Ernst & Young was formed.
- In August 2002, PricewaterhouseCoopers announced that it sold its consulting arm to IBM.
- In the US, among the Top 4, audit fees represented around 30 per cent of the total revenue of these companies, prior to the demergers.

The `Big 5'/Big 4

Table: Estimated Net Income of the Big 4- 1997-98 to 2003-04

	Million Dollars	Million Dollars	Million Dollars	Million Dollars	Million Dollars	Million Dollars	Million Dollars
Company	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
KPMG	403	466	542	605	527	550	614

Ernst and Young**	355	360	365	422.5	460	632	672
Coopers and Lybrand*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Price Waterhouse*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PriceWaterhouseCoopers	N/A	832	1156	1128	1147	840	910
Andersen **	493	525	290	323	358	N/A	N/A
Deloitte Touche Tohmatsu	310	375	444	563	573	514	465
Total	1561	2558	2797	3041.5	3065	2536	2661

Note: * Merged in 1998 ** Merged in June 2002

- Following the establishment of PricewaterhouseCoopers, the Big 4 firms will continue to dominate the industry, but with an estimated reducing market share of total revenue, at around 28 per cent at the end of June 2005.
- The merger between Ernst & Young and Andersen in Australia to form the Big 4 did not to change this market share, although some second tier firms have now increased staff and emerged with some new clients and revenues.
- The Big 4 are large multinational organisations offering a complete range of accounting services. They have well established international links and offices in most Australian capital cities.

The Second Tier

Table: Net Income of 16 of the Major Second Tier Firms

Company	Million Dollars 1996	Million Dollars 1997	Million Dollars 1998	Million Dollars 1999	Million Dollars 2002	Million Dollars 2003	Million Dollars 2004
RSM Bird Cameron	N/A	29	31	33.5	40	55	66
Investor Group	N/A	N/A	N/A	N/A	N/A	125	146
PKF	37	39	39	42.5	52	75	95
BDO Chartered Accountants	42	42	45	48	57	83	94
Horwath Australia	43	47	52	56	63	83	91
Hall Chadwick	26	27	N/A	31	41	26	28
Greenwood Challoner	16	18	19	N/A	23	N/A	N/A
HLB Mann Judd	26	28	28	N/A	33	31	38
Pitcher Partners	20	N/A	N/A	N/A	47	68	75
H & R Block	N/A	N/A	43	48	55	53	56
William Buck Group	19	17.9	21	N/A	31	59	69
Ferrier Hodgson	N/A	N/A	41	45	50	54	55
Moore Stephens	26	31	33	46	61	71	81
Grant Thornton	35	41	39	42.5	65	64	69
Bentleys MRI	N/A	N/A	N/A	N/A	N/A	49	52
HLB Mann Judd	N/A	N/A	N/A	N/A	N/A	31	38

- The 'Second Tier' firms comprise the next 23 largest firms in the industry and these had an estimated rapidly increasing market share of the total industry revenue of between 11 and 14 per cent (depending on the cut off point of between \$150 million to \$20 million in net annual income) at the end of June 2004.
- Second Tier firms in general offer a more limited range of services with most providing only general accounting, auditing and tax planning services to small businesses and individuals although some specialise in niche markets such as taxation advice or insolvency.

- However, mergers are occurring between some Second Tier firms, which, over time will increase and challenge the Big 4 status, and may eventually lead to the re-establishment of the Big 6 ranking.
- While many of the second tier firms are smaller than the Big 4, many have a national network of offices and nearly all have international links with other accounting enterprises although these are not as strong as with the Big 4.
- Until recently, it was the second tier firms which were, as a group, in decline in terms of fee income, although, there were still some good individual performers within it. Some of the larger Second Tier firms, are now directly challenging the positions of the Big 4, and seeking to fill the vacuum left by the merger of two of the former Big 6 firms in recent years.
- In June 2002, the merger between Ernst & Young and Andersen in Australia to form the Big 4 witnessed some second tier firms increase their staff and emerged with some new clients and income, as some staff left the merged firms and clients searched for alternative auditors and accountants.

Smaller Operators

- The balance of the industry, with around 58 per cent of industry revenue, consists of some relatively large firms and associations of firms, but mainly consists of the single office, smaller firms, which includes the sole practitioners. Their share of total revenue, although significant, is estimated to be declining slightly over time.

Bookkeepers

- There are many franchised bookkeeping companies operating currently. Some examples include the following.
 - Abacus Bookkeeping Centre was established in 1991 and the capital cost of joining is around \$25,000 (excluding computer hardware). There is a monthly flat franchise fee plus 5 per cent of turnover. There is also a \$40 per month advertising levy. Franchise period is for 5 years and it has over 60 outlets.
 - The Bookkeeping Network was established in 1984 and began franchising in 1990. It has a number of franchised and company owned offices. Its head office is in Perth Western Australia. The initial capital set up cost is between \$40,000 and \$42,000 (including training in Perth). Of this capital cost the franchise fee is \$13,500. The on-going franchise fee is 12 per cent of turnover and an additional 3 per cent goes towards advertising. Companies of between 10 and 20 employees are the biggest users of bookkeeping contractors.
 - Most companies offer a 48 hour turnaround for their services, which include computer generated bookkeeping, cash flow reports, debtors list, invoicing, payroll, profit and loss reports and tailored management reports.
 - None of these companies require trained accountants.

MAJOR MARKET SEGMENTS

Market Segment	Share
Corporate sectors	55.0%
Households	25.0%
Government administration	20.0%

Analysis:

- The industry is estimated to derive over three quarters of its total revenue from business and government clients and the rest from individuals or personal clients.
- There has been some marginal changes in these revenue sources, especially since 2000 with the introduction of the GST and the required regular Business Activity Statements, which has increased revenues from the business sector. However, the costs to accountants associated with servicing the GST requirements of businesses have also risen.