

Flight to value

The middle tier is attractive to both clients and the big four. Report: Agnes King

● The mid-market was where all the action was in accounting in the 2009-10 financial year – growth, staff movement and mergers and acquisitions. While all of the big four accountancy firms recorded negative growth, most of the mid-market firms posted good numbers, some remarkably so.

Of the 20 firms turning over between \$30 million and \$200 million, only four posted declines in revenue – Pitcher Partners, DFK Australia, Grant Thornton and Nexia International. The worst performer among those in revenue terms was Nexia (down 3.9 per cent).

Of the mid-market firms, Hall Chadwick recorded the most impressive revenue rise, up 25 per cent to \$51.2 million. It was followed hot on the heels by Newcastle firm Crosbie Warren Sinclair and the Australian Solutions Group national association, which reported 20 per cent and 22 per cent growth respectively.

At the top end of town, KPMG failed to pip PwC for the top spot and slipped back below the \$1 billion revenue barrier with income of \$958 million, down 6.6 per cent. PwC is once again the reigning king – the only accounting firm generating more than \$1 billion in fees.

Ernst & Young has the honour of being the big four accountancy firm whose growth was stymied the least during the 2010 financial year. Ernst & Young's revenue came in at \$917 million, down 2.8 per cent compared with PwC's, which fell 4.8 per cent, and Deloitte,

down 3.8 per cent. Ernst & Young was the stand-out performer, closing the gap on KPMG and holding its own against Deloitte.

Most observers concur that the decline of the big four coinciding with solid growth in the mid-market represents a flight to low cost.

"We took a lot of work on in the last 12 months from the bigger firms," says Anthony Bell, chief executive of Bell Partners, which increased revenue by 12 per cent to \$15.3 million. "There was never a suggestion that the big end lacked quality but if clients feel they can get relatively the same thing for 20 to 25 per cent less, they'll go for it."

This also explains why so many mid-market firms fell prey to takeovers. Noticeable absences from this year's list of the top 100 accounting firms speaks volumes about the intensity of consolidation – and the intentions of the big four. PwC bought Walter Turnbull, a major mid-market player in Canberra, plus AshleyMunro in Brisbane, while Deloitte acquired mhm, one of the jewels in Adelaide's crown.

M&A activity is unlikely to let up over the next 18 months and 20 per cent of firms on the list are openly shopping for assets. That is underscored by a deep-seated concern that even though the market has recovered, the capacity to grow is limited. Australia is a small market and it's reaching saturation point.

Another factor that distinguished the mid-tier and the big four firms was how they responded to the downturn. Despite all the rhetoric about the importance of keeping talent, cutting graduates proved an easy way for firms to save money in what's been a tough two years.

The big four savaged their graduate intake numbers. Mid-market firms were more temperate but say it won't win them loyalty when the market turns and big firms resume aggressively head hunting for top staff.

"The loyalty is about as thin as a \$5000 increase," says RSM Bird Cameron national
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TOP TEN FASTEST-GROWING FIRMS BY REVENUE

Firm	2009-10 revenue \$	Growth %	Main source of growth
Hall Chadwick	51,203,250	32.8	Insolvency, transaction support
Australian Solutions Group	19,818,245	28.3	Adelaide firm Shearer Ellis joined national alliance
Crosbie Warren Sinclair	13,214,000	25.5	Merger with BAMR, auditing, financial planning
Lawler National Alliance	44,483,792	22.4	Brisbane firm Hacketts joined national alliance. Auditing
William Buck	65,500,000	17.1	Brisbane firm, Cranstoun & Hussein, joined national alliance. Business advisory. Wealth management
MGI Australia	37,425,364	13.4	Business advisory
Bell Partners	15,327,000	13.2	Business advisory
Bentleys	54,311,651	10.6	Merged with five-partner Sydney firm. Insolvency, mining sector tax and auditing
MSI Group	18,000,000	10.4	Audit and business services
HLB Mann Judd	93,900,000	8.7	West Australia market and regional centres