Produced by Business Fitness

2019

The Good, the Bad & the Ugly of the Australian Accounting Profession

Good Bad Ugly

Benchmarking Report & Practice Improvement Guide for Australian Accounting Firms

Benchmark data

Key statistics

Revenue

- Revenue per partner – $1,045,113
- Revenue per chargeable – $212,998
- Revenue per FTE – $167,648

Productivity

- Productivity – Chargeable excluding Partners – 69.7%
- Productivity - All FTE – 51.6%
- Productivity - Partners – 47.3%

Team profile

- Leverage – 5.2 staff per partner
- Staff Ratio – 4.0 chargeable to non-chargeable
- Avg Staff Salary – $76k

Expenses

- Operating Expenses – 63.1%
- Salaries – 38.8%
- Rent – 6.0%

Profitability

- Net Profit (BPS) – 37.0%
- Per Partner (BPS) – $360,828
- Per FTE – $56,852

Cashflow

- WIP – 23 days
- Debtors – 53 days
- Lockup Days – 78 days

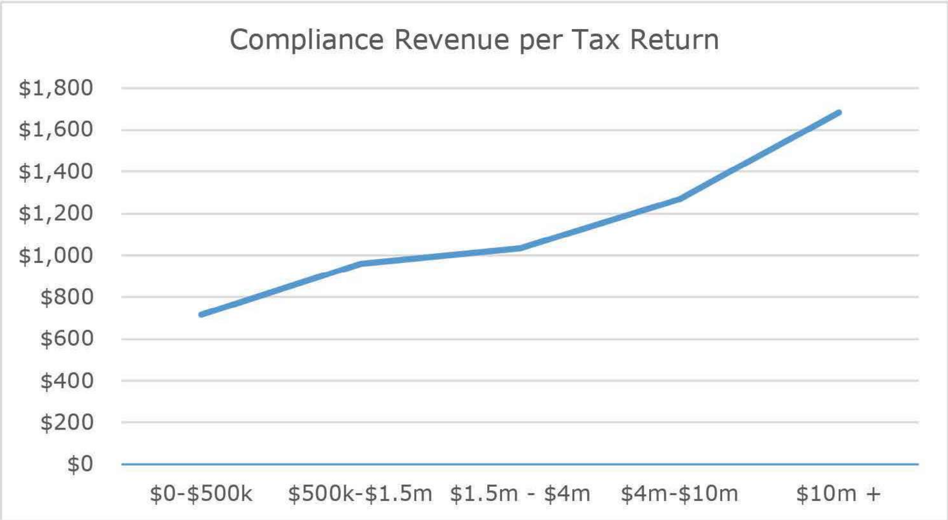
Service profile

- Other Business Advisory services – 12.9%
- Compliance (Tax & Accounting) – 60.2%
- SMSF – 9.8%

Client profile

- Clients per partner – 239
- Average Client Group fee – $4,012
- New Client Revenue – 4.8%

Key findings



Finding #1 – Tax returns lodged

A new measure was introduced in the 2019 Good Bad Ugly survey, tax returns lodged. What did the data reveal? Across revenue groups, smaller firms lodge more I-returns as a percentage of all tax returns lodged. Compared to larger firms lodging more T-returns. All other returns have similar percentages for each revenue group.

When analysing the data based on compliance revenue, as you would expect larger firms are achieving a significantly higher rate per tax return.

Finding #2 – Does working longer hours produce higher profits for partners?

A question posed at a recent industry conference, does working longer hours produce more profit? And, how much profit is enough? So the Good Bad Ugly team crunched the numbers on how many hours' partners worked and whether partners working longer hours led to higher profits.

By the way, this is becoming a more difficult measure to monitor as 18.5% of firms no longer use timesheets to track time.

The Good Bad Ugly team found those partners who are working 50+ hours per week, are making up to $100k in additional profit per partner (BPS) compared to those partners working less than 50 hours per week.

Clearly, the critical question is at what expense?

Finding #3 – Is the 'One-Third' rule still applicable in 2019?
So much has changed in our profession since 2010, but has it? Many partners would be familiar with the one-third rule, one-third salaries, one-third operating expenses, one-third profit.

Here's a comparison of key data over the last decade specific to the one-third rule.

	2010	2019
Salary Expenses	39%	38%
Operating Expenses	27%	25%
Net Profit (BPS)	34%	37%

As you can see from the table above, on average a minor reduction in salaries and operating expenses for a 3% increase in net profit. At a time, which has seen disruption and so much change in the profession. As a disclaimer, obviously smaller firms such as those generating revenue of less than $500k have salary costs at approximately 16% compared to $10m+ firms who have a salary cost of 45%.

Finding #4 – What impact has technology had on your practice?
How is technology affecting the cost of running your practice?

The trend data is showing significant reductions in printing and stationery, more than half the cost of a decade ago. This is in addition to reductions in IT & support costs and telephones.

As you might expect, an increase of four times for online subscriptions over the past decade to 2% of revenue, still less than IT and support costs. But, are firms showing signs of app fatigue?

Finding #5 – Your average client fee?
One of the quotes often sprouted by industry thought leaders is growth through additional services to existing clients, such as advisory services.

Over the previous 5 years of conducting the Good Bad Ugly, a continuing trend has been the decline of your average client group fee. This would suggest accounting firms are finding it difficult to add value to their clients through additional services.

We are happy to report a reversal in this trend for the 2019 year with the average client group fee increasing to $4,012. Has there been a concerted effort over the past 12 months to provide additional services to existing clients to increase the average client group fee? Or have firms been brave and simply increased prices?

Based on our services data, we did see increases in both "Other Business Advisory services" and also "Other services". These "Other services" could include but not limited to technology advice and lending solutions.

Finding #6 – Is new client growth (marketing) a real challenge?
The 2019 data reveals firms on average spend less than 1% of revenue on marketing activities. This has been the trend for over a decade of Good Bad Ugly surveys. Those firms spending more on marketing are at either end of the revenue cohorts, with smaller firms in start-up phase generating new revenue but also larger firms promoting more services to new and existing clients.

The data also shows firms spending over 2% of revenue on marketing, on average do not generate a higher percentage of new client fees compared to those spending less than 1%. Therefore, are you getting bang for your buck in relation to your marketing spend?

On average firms are generating two times in new client fees compared to fees they churn. Surprisingly, 22% of firms lost more revenue with clients choosing to leave than they were able to generate from new clients.

Insights from high performing firms

As previously stated in earlier publications of the Good Bad Ugly report, the most frequent question asked of our Good Bad Ugly team is, "what do profitable firms do differently"?

Simply, profitable firms review and adapt systems (including team training and client selection) to ensure that compared to others they actually do more of what everyone knows they should. How does that translate into performance results?

Partners are achieving $1.6m in revenue with 7 people per partner. 56% of fees are through compliance services with the average client fee being $8,020. Expenses comprise of 59.6% of revenue giving partners $427,583 profit after notional $200,000 salary.

Who is
Business Fitness?

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