

## Big 4 Accounting Firms Performance a Bellwether for 2010 Economic Recovery

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A look at the 2010 performance of the world's largest accounting firms – Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers PwC – [in an analysis published by Big4.com](#) shows how the big professional services players mirror the market experiences of large and small businesses as the global economy works to recover from its worst recession in 70 years.

In a comprehensive review of revenue and growth for all four accounting firms, the numbers tell the tale:

- 1.4% increase to \$95 billion in FY 2010 combined revenue over FY 2009
- 9% growth in the emerging Asian Pacific markets
- Hiring remains slow, with a reduction in total headcount to 610,000 from 617,000

Revenue growth, combined with strength in the developing Asian markets, and accompanied by a “jobless recovery,” are a clear parallel to the performance stats of US and global businesses as they emerge from the recession. The four firms had disappointing results in 2009, which also matched the global economy's figures, making the FY 2010 results encouraging both for the firms, and for the companies and economies they serve.

Each of the Big 4 saw a change in their revenue performance year-over-year:

- Ernst & Young saw a slight drop (-0.9%) in revenue
- PricewaterhouseCoopers PwC's revenue rose 1.5%
- Deloitte increased by 1.8%
- Biggest gains were seen by KPMG at 2.6%

The pecking order of the firms shifted, with Deloitte taking the #1 spot from 2<sup>nd</sup> place PricewaterhouseCoopers PwC by a slim margin of only \$9 million to become the largest global accounting firm. Ernst & Young is in 3<sup>rd</sup> place, with the smallest firm, KPMG, in 4<sup>th</sup>. KPMG's smaller size and exposure to higher-growth areas puts it in a position for good growth rates when the books are closed on FY 2011.

Some geographic shifts were also in evidence, with the still-strong European marketplace lagging in growth, yet staying at 45% of total Big Four combined revenues. The growing Asia Pacific markets rose to a 15% share, and the Americas region share stands at 39%, down from a 2006 high of 43%. However, revenue from the Americas region grew 1%, 2009 to 2010, signaling incremental business growth in the region.

Some interesting facts show up in the revenue-by-service-line performance numbers. All four firms still have significant percentages of their business coming from their traditional audit (47% of revenues) and tax (24% of revenues) services, yet all four also are seeing solid growth in their advisory service lines. Risk management, transaction advisory services and business consulting are now at 29% of total revenue for the Big 4, making up for some slowing in the traditional service lines.

The forecast for FY 2011 for all firms in the Big 4 is fairly optimistic:

- All the firms have strengthened their bottom lines, with cost control and aggressive top-line growth being their #1 goal
- The uptick in global economic confidence will keep their Advisory and Tax service lines strong
- Equity & credit markets have stabilized, which will help the firms' clients finance their own business growth
- Increased M&A and IPO activity will spur additional business for the firms
- Additional hiring in 2011 and beyond point to increased confidence within the firms
- Emerging markets, particularly in Asia, are growing at strong rates
- A better revenue base for the firms, combined with positive market conditions, point to a much better 2011
- Projected revenue growth for 2011, across all firms, will likely be in the 4% to 7% range

What can US businesses, and the global economy at large, learn from the numbers in the Big 4 performance report? Recovery from the recession appears to have made slow but steady progress in the US and Latin America in the last year, with strong signals that the European and Asian markets are also on the uptick.

The financial-sector employment snapshot, with flat-to-dropping numbers on headcount and hiring, show that the recession might be winding down for those who have jobs. Those still in the hunt, both in the financial sector and in the rest of the job market, will have to keep their nose to the search grindstone, and keep their eye on the job boards.

"The Big4.com performance analysis mirrors the 'new normal' that's developing in the global marketplace, in our region, and in our business," says Rich Reinecke of Fahrenheit Finance, a finance and accounting consulting firm that works with a number of Big 4 alumni. "A recent CFO survey showed a generally positive 2011 outlook, with increased spending and hiring on the horizon. Unemployment remains an issue, but we're hearing from companies who are having difficulty finding the talent needed at management and senior staff levels, which is a great signal for us as a firm. Events in our global marketplace are out of our control - what we can control is our mindset. 2011 may not be the year to take big risks, but it is the year to evaluate your team, grab market share and prepare to succeed as opportunity presents itself."

"I would say this is good news that supports what most economists are saying about 2011," said Chris Chmura, President and Chief Economist at Chmura Economics and Analytics after reviewing the Big4.com report's summary. "We are looking for a 2.9% increase in real gross domestic product in 2011 after an estimated 2.7% in 2010."

The Big4.com performance reports, and the projections it makes, indicate that the cautious optimism appearing both in headlines around the world and on Main Streets across the US isn't a mirage. The world's leading accounting firms are seeing slow but steady increases, yet are not likely to report double-digit growth in the next few years. The most interesting indicator for them will be the rankings within their own ranks: will PwC rebound, and retake the #1 spot it lost to Deloitte in 2010? Will the gap between Ernst & Young and KPMG narrow further?

That competition will play out against a backdrop of global economic recovery, driven by industry innovation. And all those innovators will need strong tax, audit, and advisory services from the Big 4, or from smaller firms who can help them succeed globally.

In short, while the glow at the end of the tunnel and the vibrating rails signal the steady approach of a reviving economic engine, there isn't a time established yet for its arrival in the station. But it *is* on the way.

The full study can be downloaded [here](#).

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