

Bankwest Future of Business: Focus on Professional Services

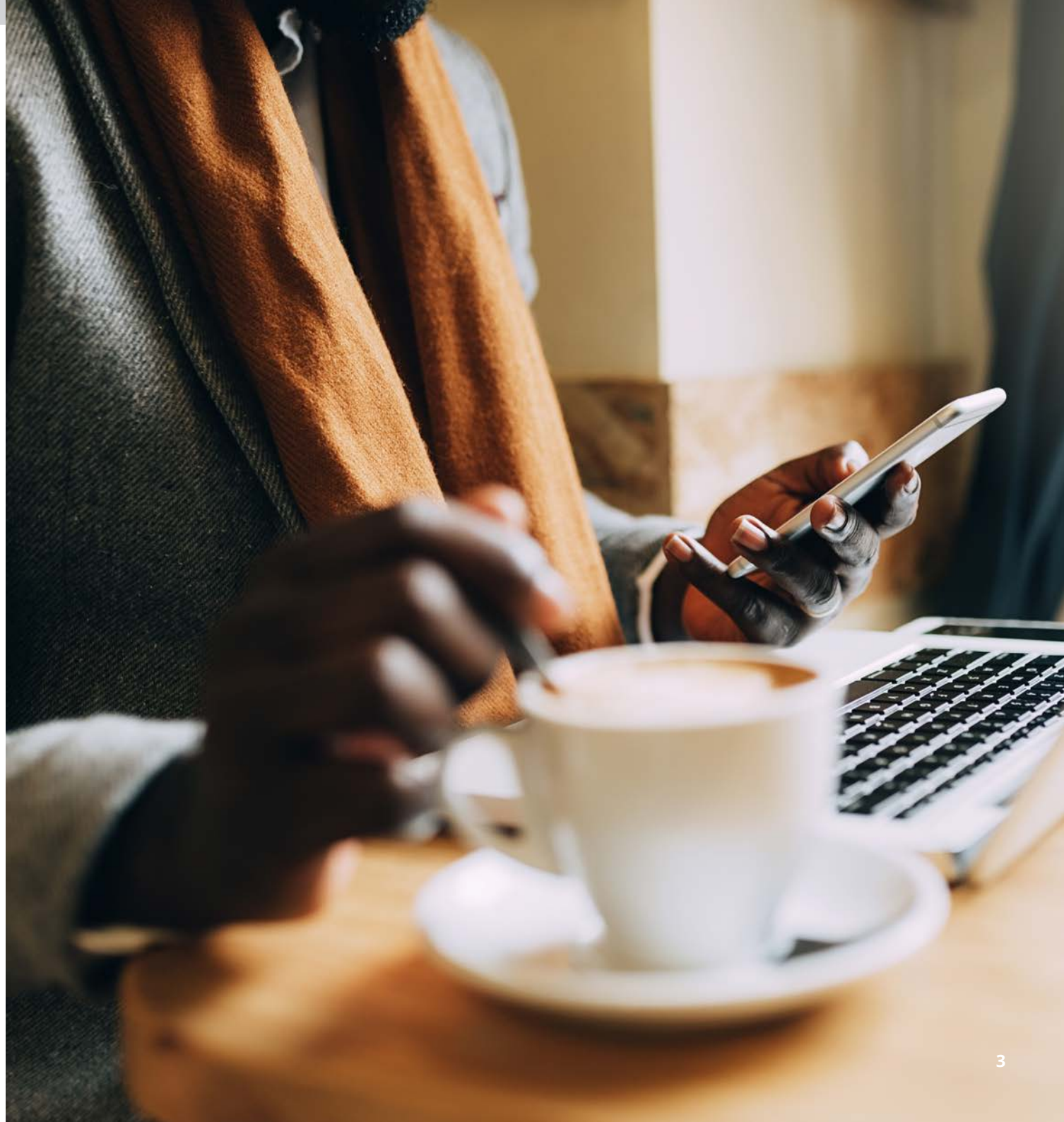
2018



FOR BUSINESS

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Key insights

Foreword

Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Professional Services Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia's accounting and legal services industry, providing insight on specialised advisory, consulting and management services, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Emerging technologies are changing industry practices in professional services. Daily tasks that once took hours to complete, and generated the majority of revenue, are now handled in minutes with automation enabled by cloud packages and artificial intelligence. The integration of new systems will require additional education for employees in digital technologies, globalisation and evolving regulations.

Legal and accounting services revenue grew by 4.0% and 9.0% respectively in the five years to

June 2017, while the number of establishments rose 11.3% and 2.4% respectively¹. This is likely due to positive business confidence, which is driving increased demand for industry services.

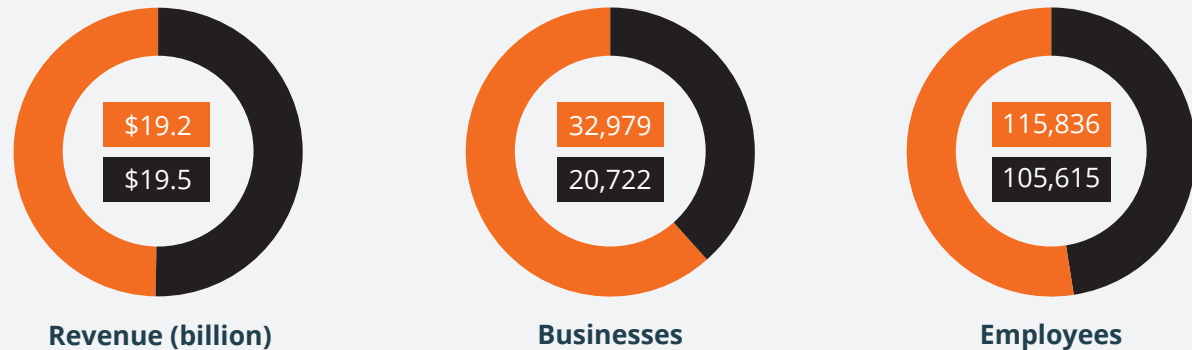
The Australian business services sector is transitioning away from goods to service-oriented companies stemming from an increased number of specialist firms outsourcing activities to more specialised service providers that are expert in niche areas.

The focus in accounting is also shifting from traditional concerns around growth, productivity and profitability to relationships and processes. This change reveals a more customer-centric focus on servicing clients' needs – beyond commoditised compliance – rather than delivering what is easy and profitable for the firm.

¹ IBIS 2017

Focus on Professional Services

While revenue across accounting and legal services is comparable, there are fewer legal services businesses and employees, suggesting a higher return per capita.



Source: IBIS 2017 ■ Accounting services ■ Legal services

Legal services has highest profit margins

Profit margins remain relatively high within the accounting and legal, legal and business services sectors, with profit margins for all three above the professional services industry average.

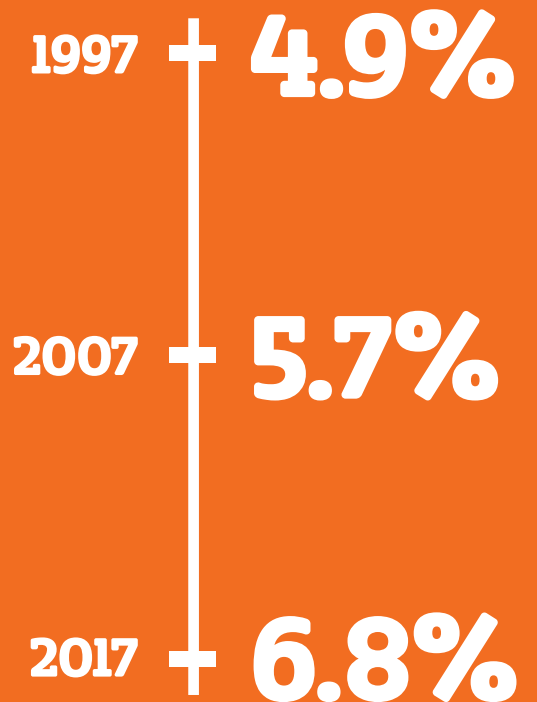
Profit margins of selected industries (2015 - 2016)



Source: ABS 8155

Professional Services a growth driver

The professional services industry has seen gross value-added rise by 5.8% in the year to June 2017, outpacing the nation's economic growth rate of 2.0% during the same period. Over time, professional services revenue is accounting for more of the nation's gross domestic product.



Source: ABS 5206

Business performance

Salaries as a percentage of revenue is marginally higher among accounting firms with annual revenue of between \$4 million and \$10 million, while net profit is higher in businesses with turnover greater than \$10 million.

Medium businesses

Revenue per partner **\$1,314,456**

Salaries as a percentage of revenue **40.1%**

Net profit (before principal/ partner salary) **\$1,982,955**

Lock up days **82**

Large businesses

Revenue per partner **\$1,687,838**

Salaries as a percentage of revenue **39.0%**

Net profit (before principal/ partner salary) **\$5,604,332**

Lock up days **68**

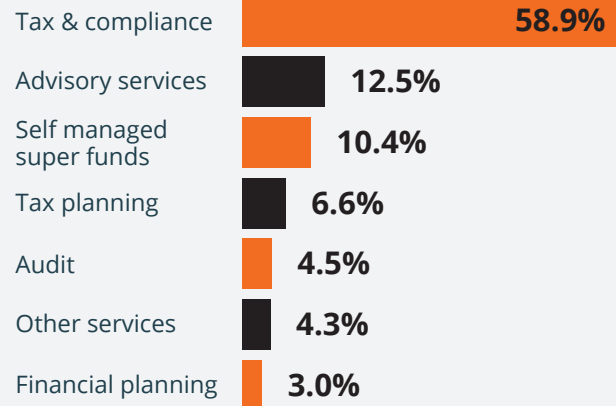
Medium-businesses defined as \$4m-\$10m turnover, large businesses defined as >\$10m turnover

Source: The Good Bad & The Ugly of the Accounting Profession 2017 Report

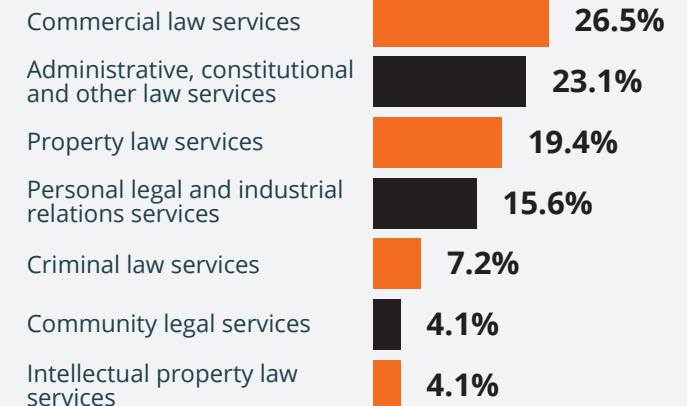
Industry overview

Tax and compliance accounts for the majority of revenue in accounting businesses, while legal firm revenue tends to be more evenly distributed across a larger variety of services.

Accounting



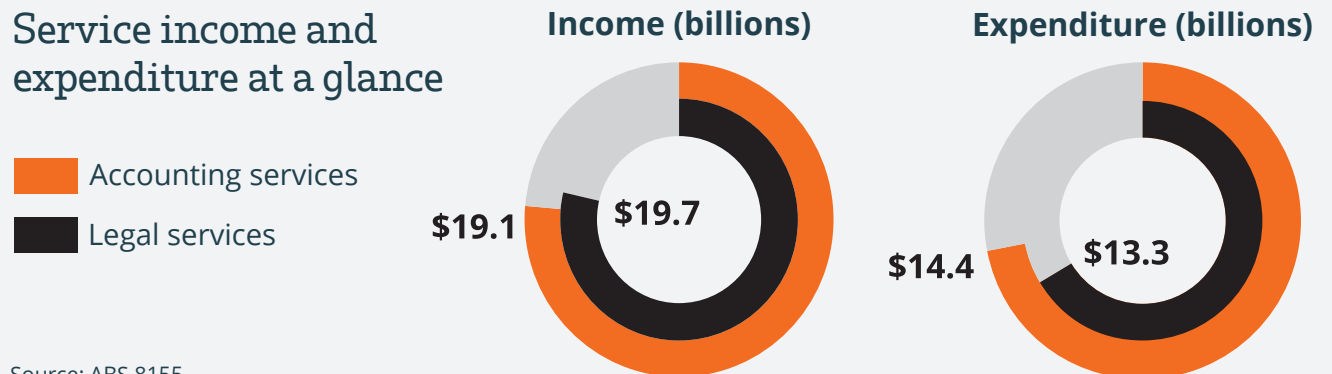
Legal



Source: The Good Bad & Ugly of the Accounting Profession 2017 Report, IBIS 2017

In the two years to June 2017, accounting and legal partner revenue increased by 17.3% to \$1.1 million and partner profitability rose 16.7% to \$362,000 before partner salaries. The strong performance can be attributed to increases in business advisory and audit services, a rise in average client groups per partner to 280 and average client group fees continuing to rise to \$3,575.

Service income and expenditure at a glance



Source: ABS 8155

What's driving industry growth?

The 'big four' accounting firms have signalled a move to expand their legal capabilities, aiming to build expertise in key areas that will complement their existing service offer.

Key growth drivers in professional services:

- ✓ Automation
- ✓ Artificial intelligence
- ✓ Blockchain
- ✓ Smart technology

Growth in the legal sector is being driven by work relating to:

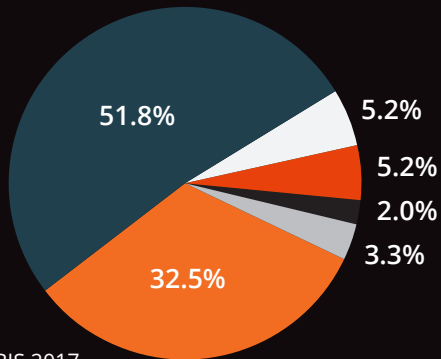
- ✓ The transfer of property titles
- ✓ Services for financial and insurance companies
- ✓ Mergers and acquisitions
- ✓ Divorce processing

Innovation is bolstering businesses by reducing cost and complexity. Some law firms are now teaching their lawyers to code, encouraging collaboration with tech experts as blockchain technology allows corporate governance to be monitored by computers.



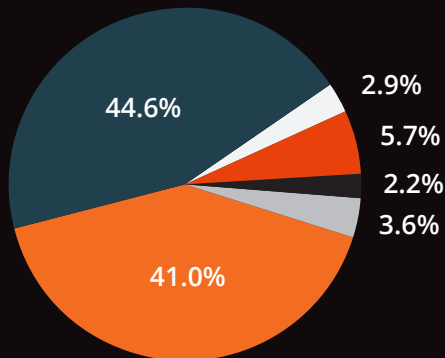
Wages a large cost for accounting

Accounting services



Source: IBIS 2017

Legal services



Source: IBIS 2017



Spotlight on Australia

The cost structure of accounting and legal services is similar, however greater need for insurances in the legal profession sees the 'other' category make up a large portion of total costs. Accounting services has one of the largest proportion of wage costs relative to other professional services industries as it seeks to provide incentives to employees who have close relationships with clients.

Accounting services:

- ✓ Cloud based technology in accounting services has put advisory work at the forefront
- ✓ Software products are accelerating delivery time by streamlining processes
- ✓ Accountants are now able to process client data in real time, freeing up time for advisory/consultation services

Smaller firms with lower revenue and fewer employees are more readily adopting cloud-based accounting software, saving time by remotely connecting company data and accountants.

Legal services:

As legal professionals work beyond retirement age, many law firms and legal departments are trying to balance a generation gap of more than 50 years between the oldest and youngest employees.

'Big four' accounting firms are purchasing smaller business services companies to incorporate specialist knowledge into their product sets.

Spotlight on Western Australia

Legal industry embraces artificial intelligence and automation

The state's legal industry is preparing for big changes by connecting super intelligent computers with US tech companies. Legal experts have expressed concerns technology will impact jobs for junior lawyers and paralegals doing basic research and legwork.

The increased use of artificial intelligence is likely to influence both the way law graduates and junior lawyers are trained, and the strategies adopted by supervising senior lawyers.

WA business growth

Legal services recorded the largest number of net new businesses in the year to June 2016, growing 4.1% compared to 2.9% growth in accounting and 2.3% in administrative services businesses respectively.

	June 2015	June 2016	Yearly % change
Legal services	1,521	1,583	4.1%
Accounting services	3,414	3,513	2.9%
Office administrative services	940	962	2.3%

Source: ABS 8165

WA accounting business performance

State median revenue per partner	Salary percentage of revenue	Net profit before partner salaries	Number of lock up days
\$1,168,800	39.6%	\$375,595	68

Source: The Good, Bad & Ugly of the Accounting Profession Report 2017





What does the future hold?

Automation across the legal services sector is predicted to affect the number and nature of job roles in the profession.



Despite the increasing role of automation, there will always be a need for personal contact and knowledge driven by a genuine interest in the client's wellbeing.

There will likely be increased convergence between financial planning and accounting practices as profit margins across services are squeezed.

Business service export key drivers

Australia's professional and management consulting services industry² is responsible for \$4.6 billion of Australia's services export industry in the year to September 2017, 8.1% higher than the previous year and 31.2% higher than five years ago.

Sector	Services export revenue	% increase/decrease
Legal services	\$0.6bn	- 2.8%
Accounting and auditing services	\$0.7bn	20.6%
Business and management consultancy	\$0.1bn	3.0%
Other professional services	\$0.6bn	- 3.5%
Management fees	\$2.6bn	11.4%
Other services	\$0.4bn	-

Source: ABS 5368
* Year to September 2017

² Advertising, market research and public opinion polling services not included

Focus on CSR

97% of legal services firms commit to pro bono programs

85% of legal services firms commit to non-legal volunteering programs

According to the latest National Law Firm Pro Bono Survey, the growing number of pro bono cases surround the rising unmet legal needs of asylum seekers.

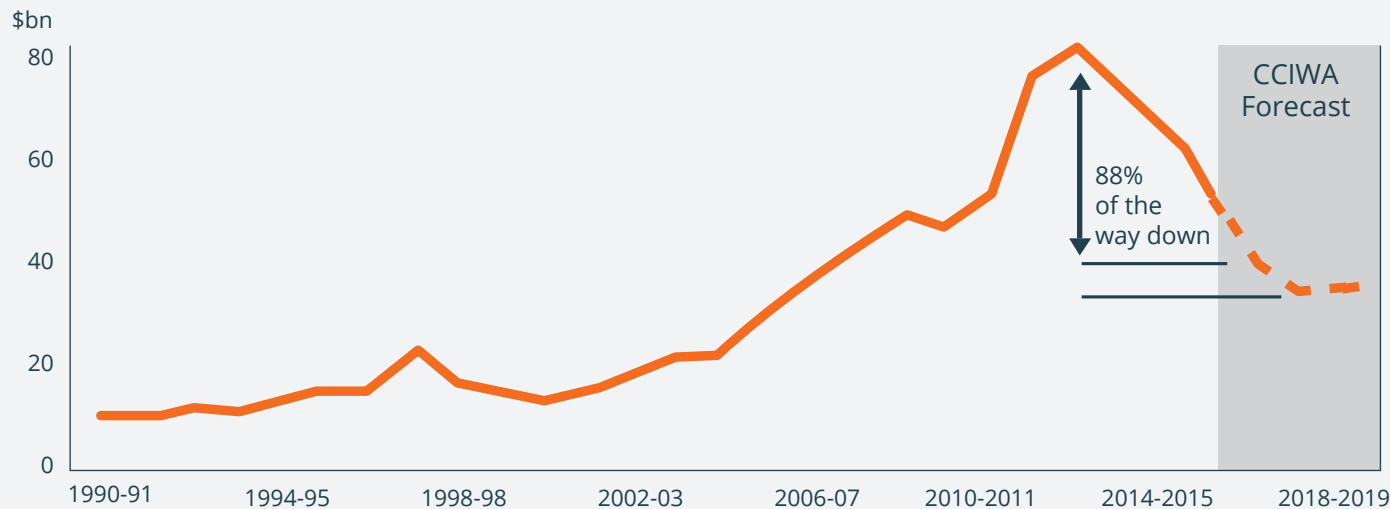
What challenges does the industry face?

Lawyers and accountants are having to upskill to maintain their relevance and remain employable in an industry that is relying increasingly on technology. Legal firms have expressed concerns that technology is reducing billable working hours and impacting revenue. Partners are now seeking growth by increasing market share in domestic and cross-border markets.

Spending a challenge for business services

The business services sector is facing a long-term decline in spending as technology increases efficiency. WA business services will have to continue to navigate a sluggish economy before seeing a strong uptick in investment.

WA business investment



Source: CCIWA July 2017

Where do the opportunities lie?

Flexible working spaces are providing new opportunities for professional services businesses to set up work spaces that are geared towards different tasks and employee needs. Large organisations are using co-working offices for 'spill over' purposes or, to offer employees additional work flexibility.

Co-sharing benefits

- 91%** gain business insights from others
- 80%** achieve business growth
- 74%** experience greater productivity

Source: Coworking Spaces Australia

Growth in one-stop shop accounting firms provides an opportunity for smaller companies to offer tailored, specialised services to meet demand at lower prices than multinational accounting firms.



As the legal industry increasingly relies on technology, demand for young lawyers with combined law and IT qualifications is expected to grow.

Forecasted industry growth

The Australian professional services industry is expected to grow by an annualised 1.9% by 2023³.

Increased automation within professional services is expected to free up employees to provide more high value services and boost wages. Employee wages are forecast to rise over the next five years for both legal, management and consulting services, while remaining stable in accounting.

Projected revenue growth, 2017 - 2022

	Revenue growth
Legal services	5.4%
Accounting services	10.4%
Management consulting services	14.0%

Projected employment growth, 2017 - 2022

	Employment growth
Legal services	3.4%
Accounting services	6.9%
Management consulting services	10.0%

Projected average employee earnings growth, 2017 - 2022

	Average employee earnings growth
Legal services	8.6%
Accounting services	0.8%
Management consulting services	6.7%

³ IBIS 2017

Source: All tables IBIS 2017



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