

Bankwest Future of Business: Focus on Professional Services

2019 release



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 professional services sector¹, with a strong focus on legal and accounting services, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Business confidence took a hit in 2018, but is expected to regain momentum in the coming years, resulting in more work for the industry. The number of job vacancies in professional services has effectively doubled in less than a decade, with employment in the industry also increasing considerably.

Accounting services continue to be one of the more consistent sectors in Australia, with employment, revenue, and wages all increasing at a steady rate. The government will also roll out its seven-year plan to restructure personal income tax, meaning

personal accountants and lawyers will be far more active in the tax advice space—as the population attempts to grasp these changes.

The advent of a new technological era has brought with it disruption, creating both opportunities and challenges for professional services firms. Legal-tech entrants have quadrupled in the past two decades and Cloud, AI, and cryptocurrency technology have all spurred changes in the accounting sector. Integrating technology into business processes to drive productivity is the biggest focus for accounting businesses. Streamlining processes and leveraging technology is a focus for more than three in four firms (84.7% and 78.5%).²

The recent high volume of public inquiries by government and regulatory bodies has buoyed legal services firms and is expected to slow as many of these conclude, but has also prompted a focus on cultural change within the industry. Professional services firms, particularly the Big Four accounting firms, are likewise turning their attention to company culture. In doing so, they are undertaking initiatives that demonstrate their modern approach to diversity and inclusion, in an attempt to shake their historically conservative reputation in this area.

¹Report covers the professional services sector as per the ANZSIC definition (Chapter 8, Division M) which includes legal, accounting, research, advertising, management consulting, engineering and IT services.

²GoodBadUgly 2018

Industry overview

The professional services sector employs more than 1 million people across Australia³ in industries ranging from accounting to computer systems design. In the year to June 2018, professional services revenue grew by 1.1%, due to strong growth in computer system design.⁴



\$124.2b
Value added



1,064,548
Employment



78.3%
Firms making profit

Under the microscope

	Legal	Accounting
Value added	\$12.9b	\$12.9b
Revenue	\$20.3b	\$19.7b
Employment	109,600	118,595

Computer systems industry

As a result of Australia's movement into the technological era, the demand for IT and data services has increased substantially, with companies constantly trying to keep up with modern tech advancements. One of the top performing sectors is data storage, with data integrity and safety becoming a key factor in the operation of numerous businesses.

Revenue (FY 17-18) **\$2.3b**

Profit (FY 17-18) **\$259.2m**

Annual growth (13-18) **14.3%**

Annual projected growth (18-23) **10.0%**

Source: IBIS 2018

³ABS 6291

⁴IBIS 2018



Focus on professional services

The profits of the professional services industry continue to be dominated by legal and accounting services. The industry has experienced consistent employment, establishment, and revenue growth in recent years—this is anticipated to continue into the future.

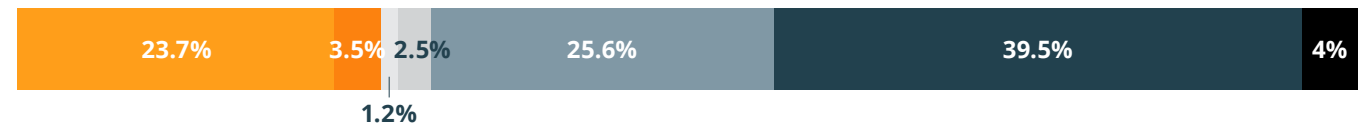
	Legal services	Accounting services
Profit (year to June 2018)	\$6.0b	\$4.7b
Number of businesses (year to June 2017)	+2.4%	+1.5%

Source: IBIS 2018, ABS 8165

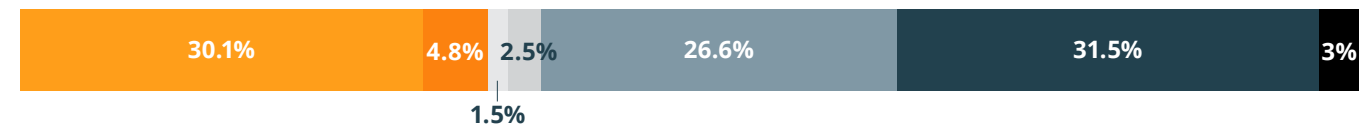
Despite experiencing stronger revenue growth than legal services, accounting profit margins remain well below legal services. This is largely due to wages making up 39.5% of accounting costs, compared to 31.5% in legal services.⁵

Cost Segmentation

Accounting



Legal services



Profit Rent Utilities Depreciation Other Wages Purchases

⁵IBIS 2018

What's driving industry growth?

Anticipated increases in business confidence Australia-wide will begin to accelerate growth in all areas, driven by the resurgence in the resources sector, and other financial factors.

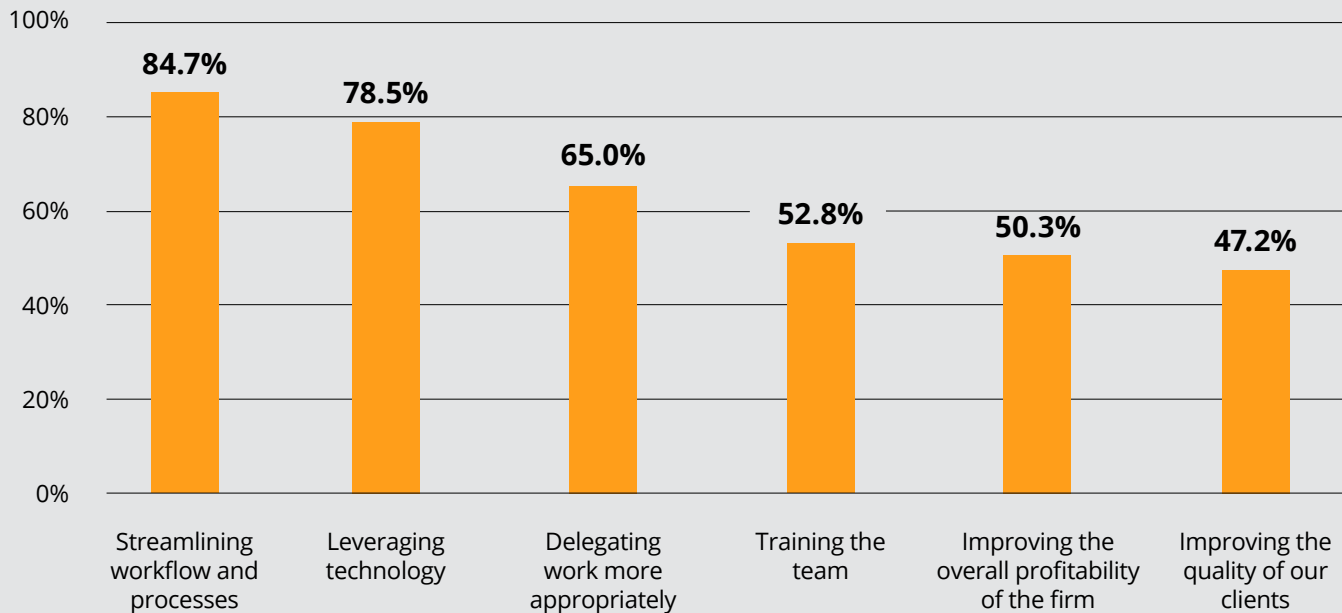


The recent high volume of public inquiries by government and regulatory bodies has been driving large growth in legal services and is expected to slow as many of these conclude.



Technological advancements like AI, Cloud, and blockchain technology have all served to create a more secure, efficient and automated process for a plethora of sectors—both within and beyond financial services.

Top initiatives accounting firms are taking to drive growth



Source: GoodBadUgly 2018



Accountants are now considered the most important professional services provider to SMEs in terms of business performance.⁶

⁶NAB 2018

Management consulting

The growth in job vacancies is being driven by rising employment within consulting, IT, and market research. Management consulting employment has risen the fastest of all sub-industries within professional services, increasing by 16.4% in the year to November 2018.

Employment growth by sub-industry,
Year to November 2018

Architectural, engineering
and technical services **0.6%**

Legal and accounting
services **-0.7%**

Advertising services **-8.0%**

Market research and
statistical services **2.8%**

Management and related
consulting services **16.4%**

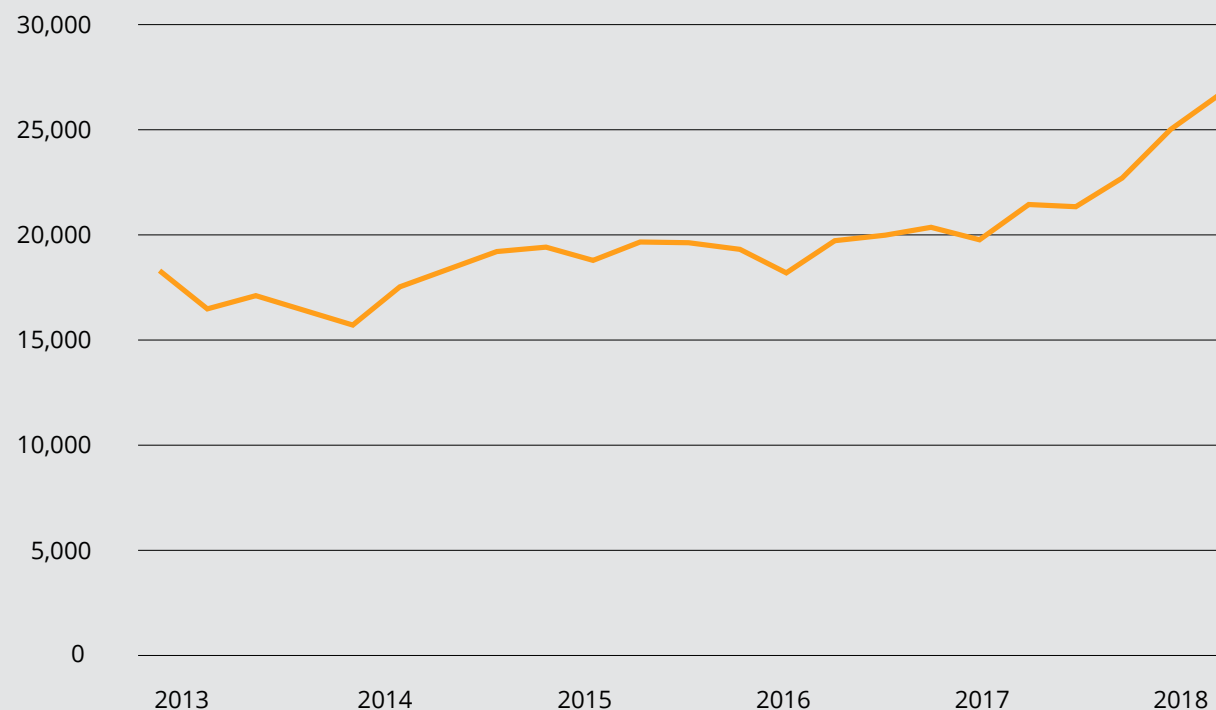
Computer system design
and related services **8.3%**

Source: ABS 6291

Spotlight on Australia

Professional services job vacancies increased by 56.5% in the five years to August 2018 to 26,913 across Australia.

Australian professional services job vacancies, 2013 - 2018



Source: ABS 6354

Despite recent growth in computing and management consulting employment, legal and accounting services remains the largest employer in the professional services industry, employing 275,000 across Australia.⁷

⁷ABS 6291

Spotlight on Western Australia

Western Australia's economy remains heavily reliant on its local mining industry. Recent announcements of new major construction projects come as welcome news to the professional services sector, which is a large supporting industry to the sector.

Relative to Australia, Western Australia accounts for:

7.8%

Legal services
market share

10.7%

Accounting services
market share

10.5%

Professional services
market share

10.4%

Population

Western Australia's subdued economic performance saw overall employment in professional services decline by 5.3% in the five years to November 2018, while nationwide employment in professional services increased by 19.1% during the same period.

The WA Department of Treasury forecasts that in the year to June 2019 the state will see:

3.3% ↑

in gross state product

1.8% ↑

in nominal wages

1.2% ↑

in the population

The importance of WA mining to professional services is reflected in:

- ✓ \$75 billion in new construction projects
- ✓ 5.5% increase in mining profits in the year to June 2018
- ✓ 30.0% contribution to WA gross state product (GSP)



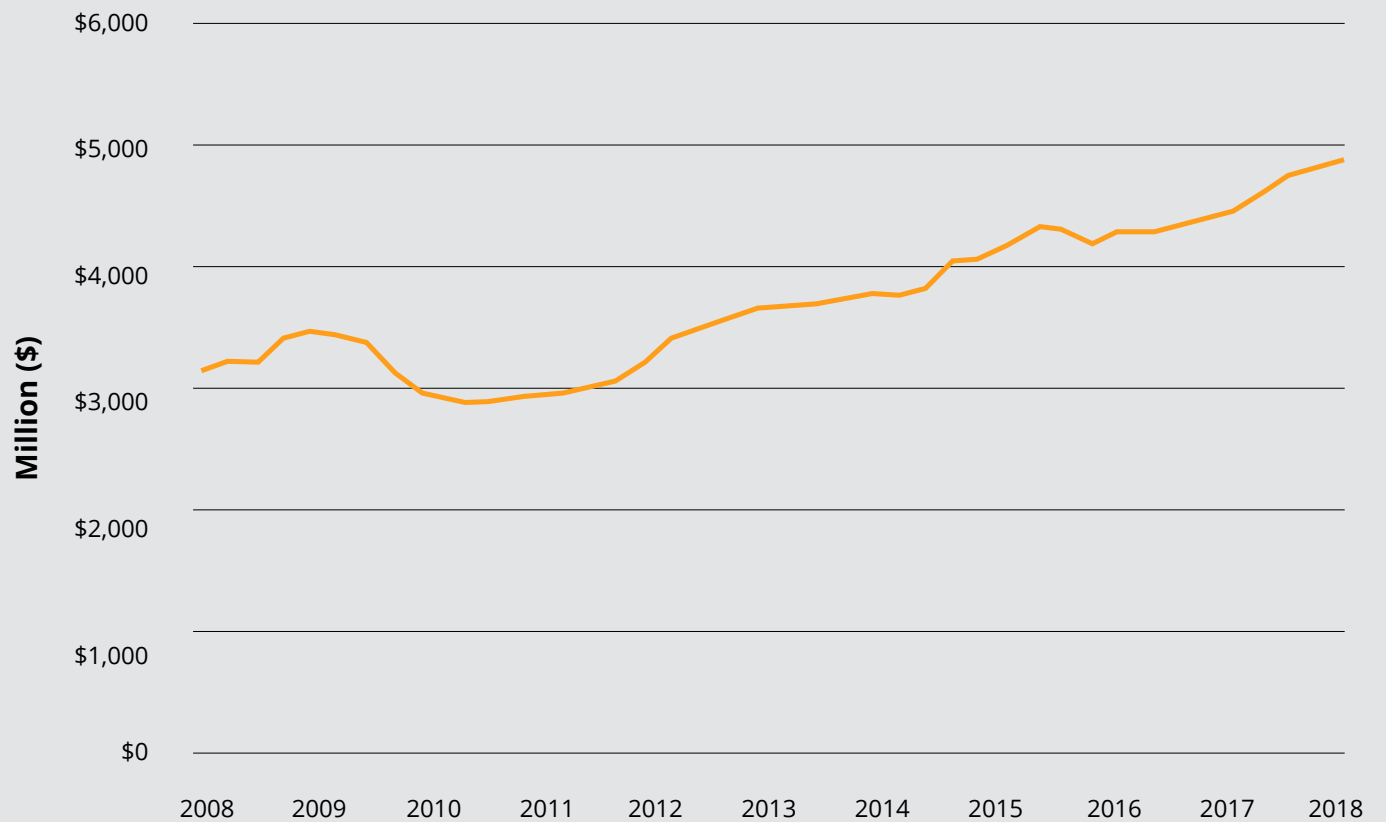
When business confidence is high, firms are more likely to undertake expansion initiatives that require the services of legal, accounting, and other professional services. While business confidence has been lower in WA relative to the rest of the nation in 2018, confidence is anticipated to return in 2019, largely due to the resurgence in the mining sector.



What does the future hold?

The continued movement towards globalisation is seeing increased exports of professional services to overseas markets. Industry exports increased by 32.9% in the five years to June 2018, with growth highest in accounting services, which grew by 62.8%.

Australian professional and management consulting exports, 2008 - 2018



Source: ABS 5302

What challenges does the industry face?

Looking forward...



Firms willing to embrace new technology should perform strongly in the coming years, while those reluctant to innovate and introduce automated processes will likely fall behind.



Firms that implement policies aiming to improve equality and diversity within their organisation should benefit from the share of talent available. Deloitte's GLOBE, inspiring women, and Westpac's Equilibrium programs are examples of such initiatives.



Accounting firms are increasingly seeking to streamline workflow and processes (84.7%) and leverage technology (78.5%) to make the firm more profitable and increase its value. This is much more common than improving the overall profitability of the firm (50.3%) or focusing on acquiring a better parcel of fees (6.1%).⁸

Increased use of technology will see the need for small to medium size businesses to move into more niche markets, as specialist firms will likely come into higher demand as tech becomes broadly adopted.

⁸GoodBadUgly 2018

Key challenges

52.0%

of accounting firms have partners retiring in the next five years, up from 40% in 2017.

25.2%

of accounting firms have a documented succession plan.

36.2%

of accountants believe the market for accounting firms will be harder in 2023 than it is currently.

Government enquiries

The recent high volume of public inquiries by government and regulatory bodies has created an opportunity for both professional and legal services firms to help strengthen compliance and ethical practices within the financial services sector. Legal reviews and internal audits will likely result in increased use of reputable risk management services, with a focus on:



Being a first point of contact for advice for financial services businesses



Document and record control



Developing, documenting and implementing compliance processes



Reviewing and auditing service processes and evaluating risk

Where do the opportunities lie?

The growing use of technology and data provides several applications for professional services companies to either develop internally or insource from specialised providers.

Cloud-based technology for accounting has taken market precedence, as more firms are buying into the efficiency, cost-reduction and ease that cloud-based accounting provides.

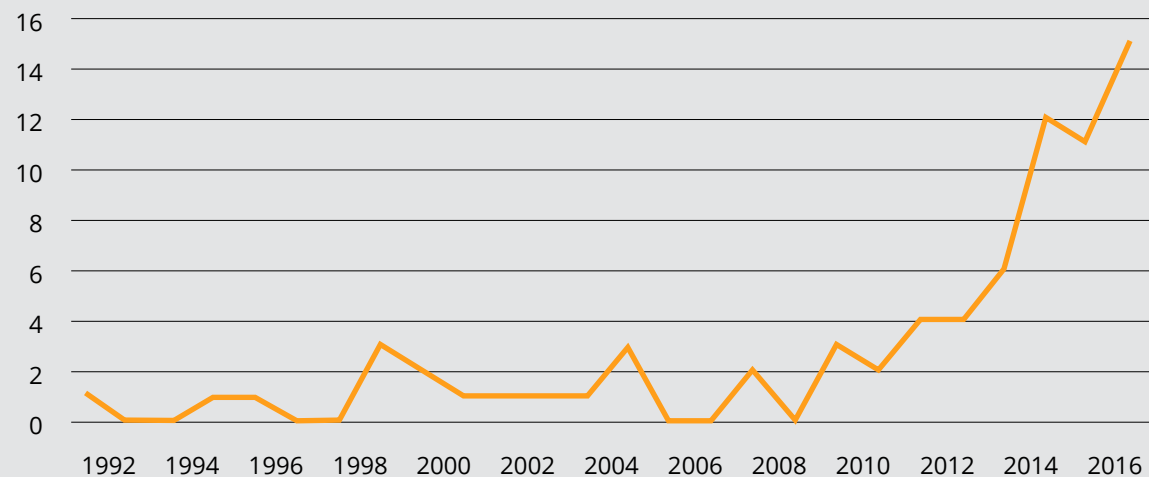
Artificial intelligence is also impacting the accounting sector, with tasks such as payroll, tax, audits, and even banking anticipated to be completely automated by 2020.

Cryptocurrency has the potential to completely disrupt the processes and general mechanisms of accounting.

The dawn of legal tech

The number of legal technology firms in Australia have risen exponentially over the past 25 years. With a purpose to streamline operational processes such as research and document development, they threaten the margins of more traditional firms, who are scrambling to invest in technology and innovation. LawPath, an Australian legal tech firm, recently received a \$1.8 million capital injection from US based Legalzoom.⁹

Annual legal technology entrants, 1992-2017



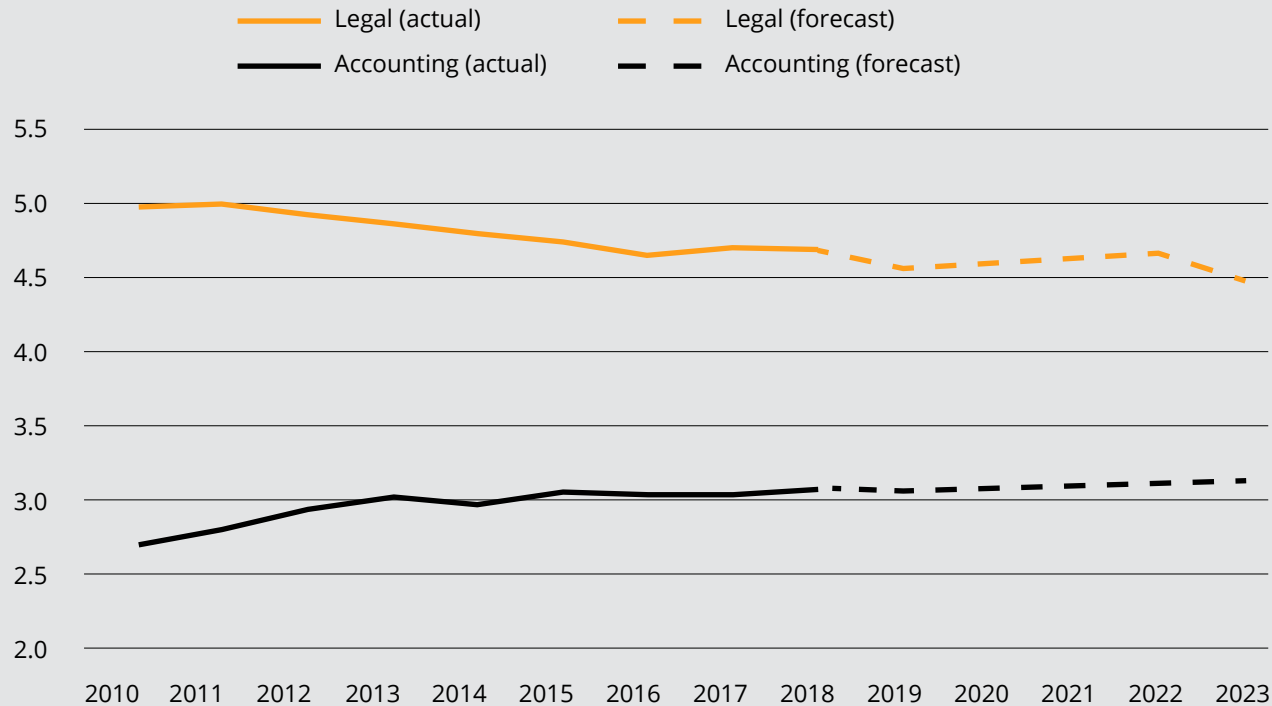
Source: Deloitte 2018

⁹Thomson Reuters 2018

Forecasted industry growth

Professional services revenue is forecast to grow by 9.1% in the five years to June 2023. Growth is forecast to be highest in the accounting services and data storage sectors, at more than 10%. Legal services growth is expected to increase less rapidly in the coming years due in part to the conclusion of a number of public inquiries.

Actual & forecasted employees per establishment by industry, 2010 - 2023



Source: IBIS 2018

Employment expectations follow a similar trend, with legal employment growth slowing (partly as a result of legaltech and accounting job growth rising in the near future).



Projected revenue growth, 2018 - 2023

Legal services sector  **4.7%**

Accounting services sector  **9.4%**

Data storage and integrity services  **50.1%**

Professional services industry  **9.1%**

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