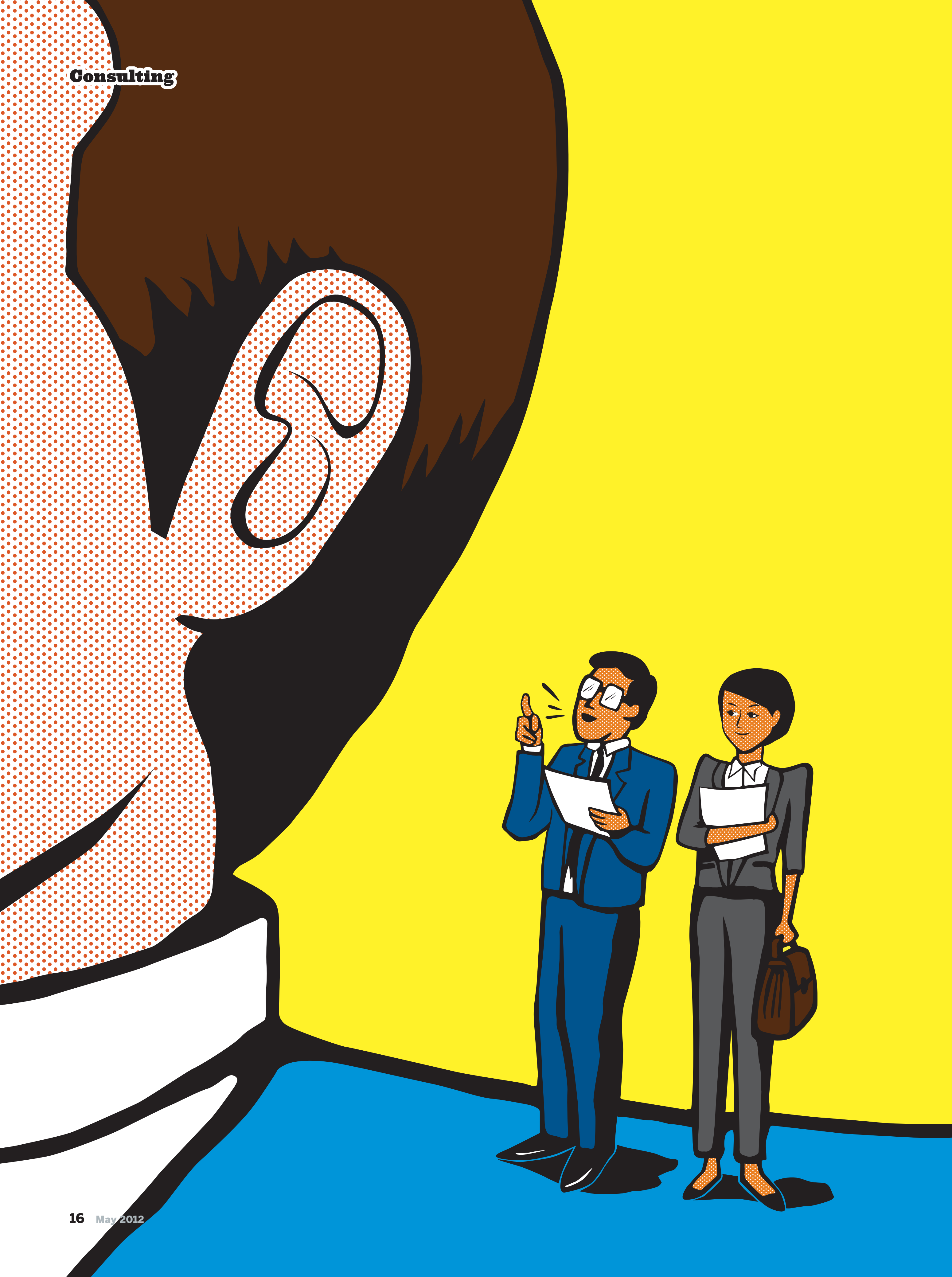

ALL EARS

With the Big Four posting huge growth with their consulting practices, smaller accounting firms are looking at ways to set up and expand their own. George W. Russell reports

Illustrations by Tree Tree Tes

In the ballroom of Hong Kong's JW Marriott Hotel one rainy April morning sat the future of Big Four consulting. Ninety-six business students – 70 percent of them accounting majors – from 23 countries were making their cases for merging Geely with Volvo, expanding TripAdvisor to include house rentals and bed-and-breakfast places, or hastening Qantas' expansion into China.

The students were in Hong Kong at the invitation of KPMG, which conducts an annual contest for promising students – and possible recruits. The ninth KPMG International Case Competition was being held in Asia for the first time, reflecting the eastward shift of global markets. The purpose of the competition is to allow the firm to evaluate their ability to analyse, says Lynsey Bennington, who coordinates the competition.

Bennington, a global recruitment manager with KPMG International in Toronto, says the students are watched particularly for their aptitude in advisory work. "Yes, they could definitely be the consultants of tomorrow," she says.

Many potential recruits see a career at an accounting firm as something more than auditing. "I would like to be advising in financial services," says Gary Au, a University of Hong Kong business and accounting student who represented Hong Kong at the KPMG event.

At the firms, consulting and advisory covers a broad range of services, from financial transactions assistance to management consulting to strategic advice. And as they embrace or acquire new areas of expertise, the new skills are usually folded into consulting departments.

"The whole field of sustainable development and corporate social responsibility is opening up new avenues of consulting services," says Ken Morrison, managing partner in Hong Kong at Mazars, a midtier firm that has been building its consulting practices. "People development consulting is also an area gaining increased interest among clients as they engage in a war for talent," adds Morrison, who is a member of the Hong Kong Institute of CPAs.

Big Four firms are finding that consulting is their fastest growing sector globally as it makes up from a fifth to more than a third of their global revenues, according to the firms' most recent financial statements, depending on how it's counted. (Grant Thornton and BDO, the next largest firms, report similar proportions.)

Those figures are rising. KPMG's revenues from consulting rose 14.8 percent in 2010-11, compared with audit and tax revenue growth of 5.8 percent and 13 percent respectively. At Deloitte, consulting grew 14.9 percent in 2010-11, while the separately categorized financial advisory services rose 15.1 percent. By contrast, revenue from tax advisory increased just 5.2 percent and audit and related services by only 4.7 percent.

The other firms recorded similarly impressive increases, and that's just from consulting units within the accounting firms. In addition, Big Four firms can cross-sell consulting products and services across their sub-brands. Deloitte, for example, has an advisory practice and a financial services advisory practice as well as a stand-alone consulting company, Deloitte Consulting.

Back from the brink

Only 10 years ago, the consulting business was in disarray. Disgraced by the Enron collapse and the dismantling of Arthur Andersen, accounting firms had their consulting business seriously restricted by the Sarbanes-Oxley Act in the United States. The new laws limited the types of consulting services auditors provide to companies they audit.

Accounting firms found it was no longer so easy to cross-sell their consulting services and – also keen to distance themselves from the negative sentiment – started spinning and selling off their consulting arms. IBM absorbed PwC Consulting in 2002 after it was renamed Monday for just two months. KPMG spun off its consulting unit into Bearing Point. Ernst & Young sold its consulting unit in 2000 to the French information technology services company Cap Gemini (now Capgemini), and Accenture had split from Arthur Andersen just before the accounting firm's collapse.

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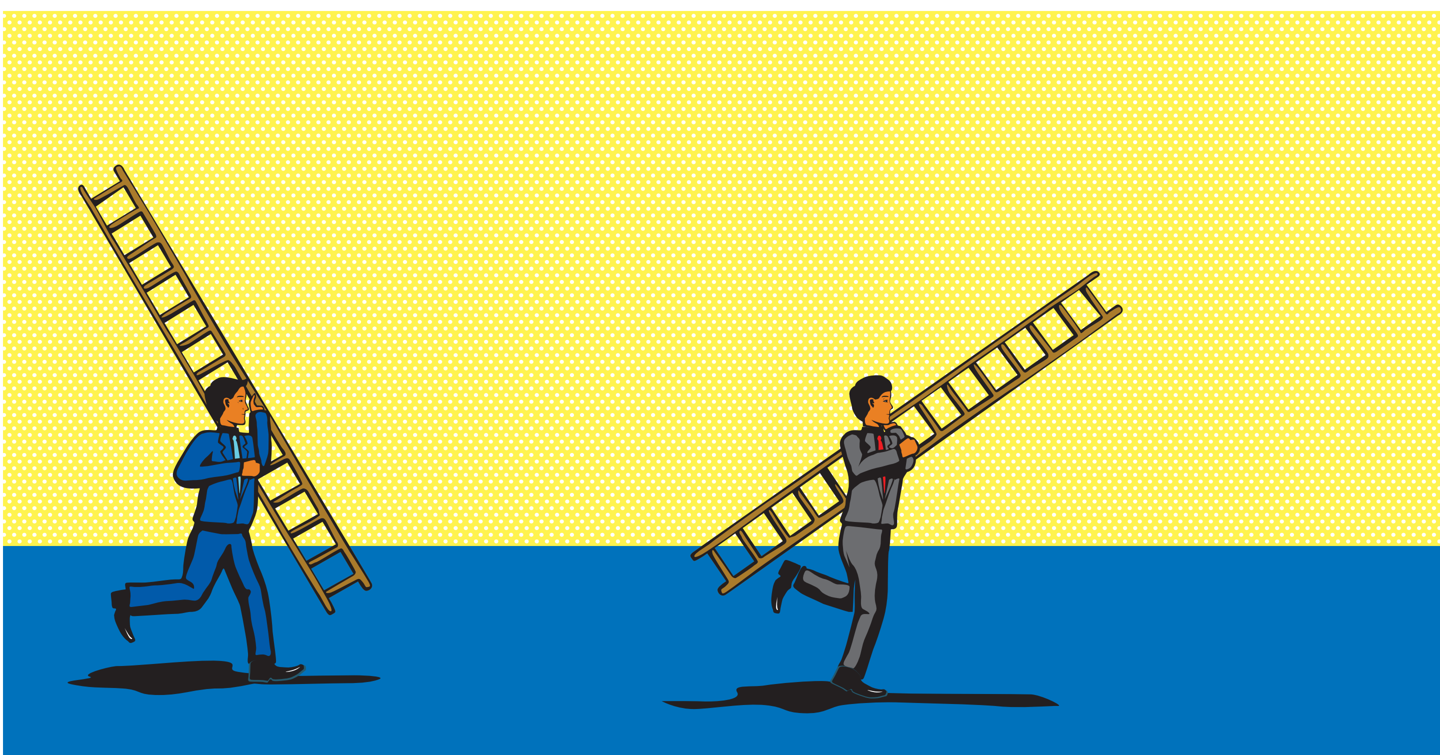
While Deloitte Consulting was briefly known as Braxton, it returned to its original name in 2003, reflecting the fact that the U.S. spotlight on consulting had already begun to dim just a year after Enron.

Moves by the Big Four back into the consulting business have not gone unnoticed by regulators in Europe. Last year, the European Commission proposed that auditing firms be banned from providing consulting services to companies they audit, or even be banned altogether from consulting.

One reason is the accounting firms' grip on consulting services in certain sectors. Big Four firms account for 45 percent of the financial services market worldwide, according to Big4.com, an online accounting recruitment and social network based in New York.

While McKinsey & Co., Boston Consulting Group, Bain & Co. and Booz & Company dominate the headlines in consulting, their



revenues are, in many cases, behind the consulting revenues of the Big Four. McKinsey & Co. posted about US$7 billion in total revenues in 2011, while KPMG made US$7.54 billion from its consulting practice and PwC posted US$7.5 billion.

Size isn't everything

The profitability of consulting hasn't been lost on smaller accounting firms. Mazars in Hong Kong says consulting services already represent as much as 50 percent of annual turnover. "While tax and audit services are continuing to grow, the areas of consulting services are growing far more rapidly," says Morrison.

RSM Nelson Wheeler, meanwhile, has established two new departments in Hong Kong, covering risk management and forensic accounting. "Consulting is just a word, really," says Wong Poh Weng, managing partner of RSM Nelson Wheeler and an Institute member who has overseen his firm's recent expansion from core tax and audit work. "It can mean valuation, it can mean market research."

Wong says the expansion resulted from pressure from a partner who wanted to see faster growth in the firm and from clients who wanted broader services. "It was very much a reaction to demand," he says.

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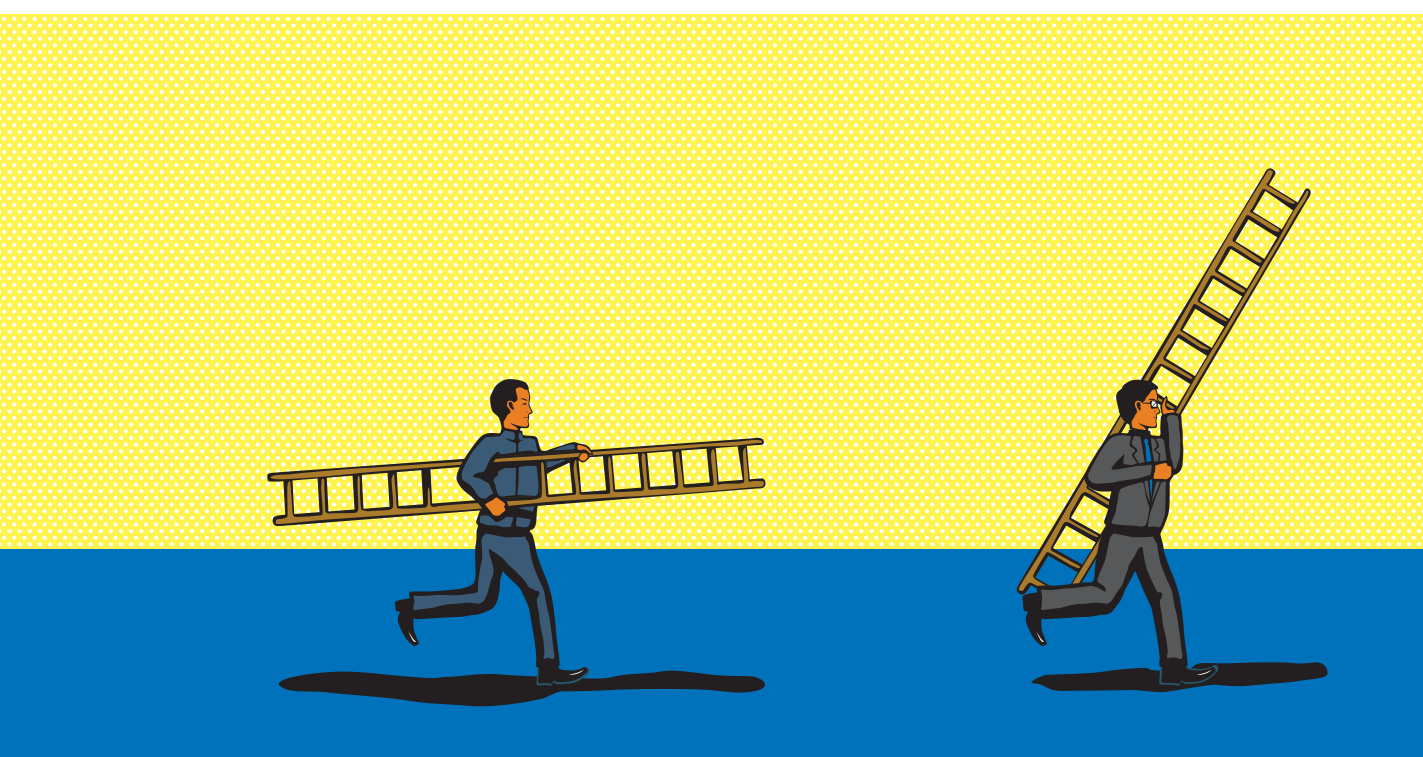
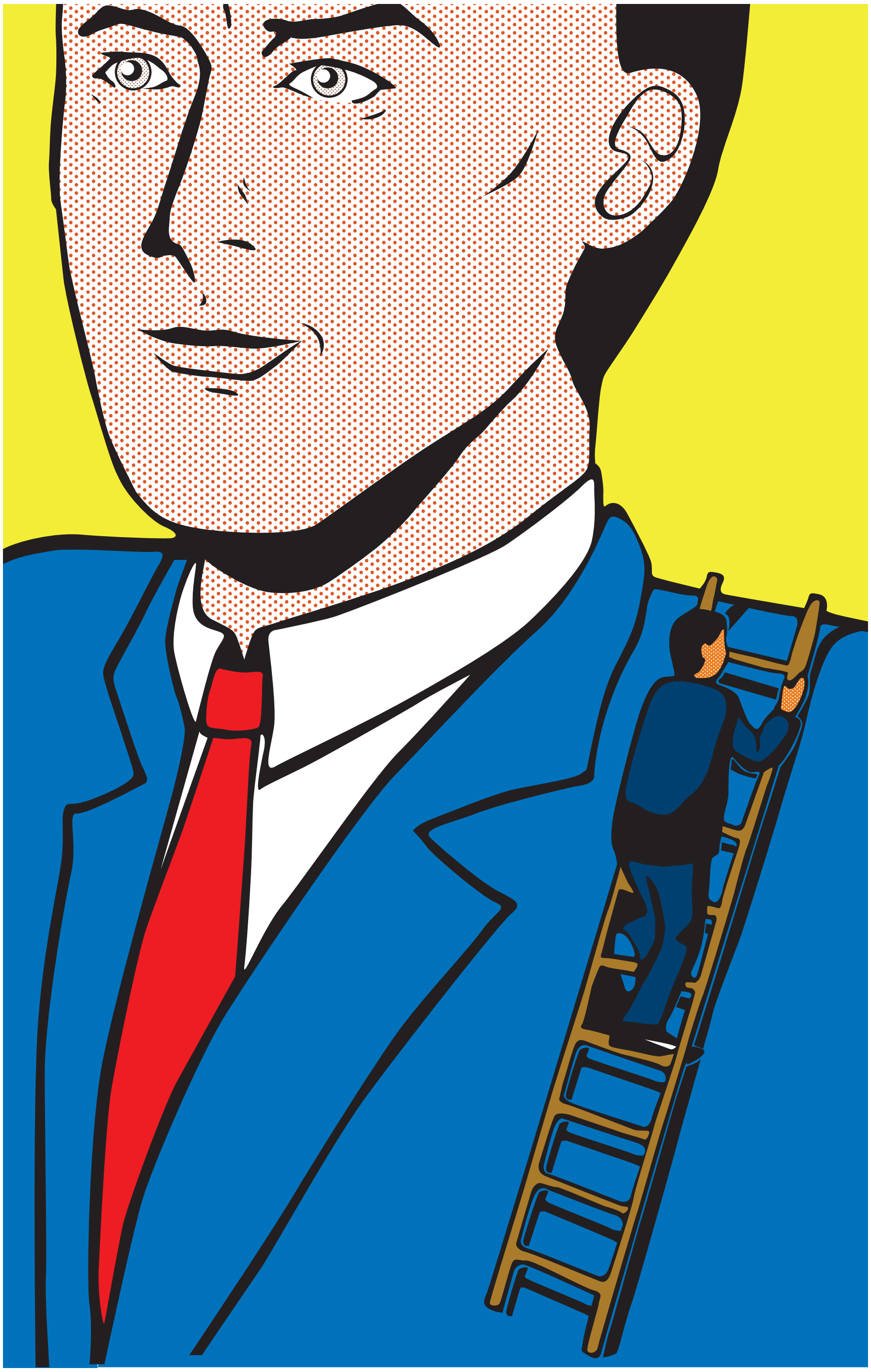
Morrison acknowledges that the Big Four have an advantage over midtier firms in consulting. "The main challenges we would face is the extent or range of our services," he says. "It is probably true that the resources available within the Big Four enable them to bring expertise in more specialist areas than a firm like Mazars. However, in the areas where we can and do compete, we believe we do so as equals."

Wong, on the other hand, says midtier firms have two advantages. "We like to think we can give clients better partner or director attention," he says. "With 35 partners and directors and 250 staff, issues can be resolved quickly." The other advantage, he adds, is better pricing – usually. "We can price better unless a Big Four firm wants the job and charges nothing," he says.

The ultimate prize for consulting practices is the mainland and midtier firms see long-term opportunities. "There is huge potential for market development in the consulting business in China," says Pammy Fung, a director of Crowe Horwath in Hong Kong and an Institute member. "Many clients are looking for assistance in corporate governance, organizational training, financial consulting and human resources and





recruitment services to enhance their development in the coming decades."

Acquisition sprees

While all the Big Four firms are keen to develop their consulting practices, observers say Deloitte and PwC are the ones to watch because of their aggressive acquisition focus. "What has emerged was that PwC and Deloitte are associated with a wider range of services outside conventional management consulting than KPMG and Ernst & Young," says Fiona Czerniawska, cofounder and managing director of Source, a London research company specializing in the management consulting market.

In December, PwC bought Australian IT consulting company Avantis Information Systems. Also last year, PwC acquired business management company Implementation Specialists and health care consultants JRS Partners in the United States. In 2010, PwC paid US$378 million for Chicago company Diamond Management & Technology Consultants.

Deloitte has also been on a buying spree, especially in emerging technologies. This year it acquired Übermind, a creative agency focused on mobile technologies, and Oco, which specializes in data analysis. It also recently bought Intrasphere Technologies, a global drug safety and regulatory consulting business.

"Deloitte and PwC have growth strategies," says George Beaton, chairman of Beaton Consulting in Melbourne, which tracks consulting in Asia Pacific. "They're experimenting and testing the water to see how far they can stretch their brands."

Clients say the Big Four firms are offering more diversified services than ever before. "They are leveraging the brands they have built up through their accountancy practices to offer other services," says Claire Sonnenberg, a managing director at BNY Mellon in Boston, who manages the bank's relationships with consultants. "We're almost always using the Big Four for something these days." A