Balancing act: Increasing profit margins will depend on controlling wage costs
About this Industry

Industry Definition
Firms in this industry are certified to audit the accounting records of public and private organizations and to attest to compliance with generally accepted accounting practices. Certified public accountants (CPAs) provide a variety of accounting services, including auditing accounting records, designing accounting systems, preparing financial statements, developing budgets and providing advice on matters related to accounting.

Main Activities
The primary activities of this industry are
- Auditing
- Providing accounting advice to corporate clients
- Providing accounting advice to individuals and small businesses
- Accounts preparation

The major products and services in this industry are
- Auditing and assurance related services
- Consulting
- Tax Services
- Other Services

Similar Industries
- 54121b Payroll & Bookkeeping Services in the US
  This industry offers payroll and accounts bookkeeping services.
- 54161 Management Consulting in the US
  This industry advises businesses on issues of corporate strategy, human resources, organizational design and financial advisory and logistics.
- 56141 Document Preparation Services in the US
  This industry provides a variety of document preparation services, including word processing and document editing.

Additional Resources
For additional information on this industry
www.accountingtoday.com
Accounting Today for the Web CPA
www.accountingweb.com
Accounting Web
www.aicpa.org
American Institute of CPAs
www.internationalaccountingbulletin.com
International Accounting Bulletin
Industry at a Glance
Accounting Services in 2013

Key Statistics Snapshot

Revenue $99.1bn
Profit $13.8bn
Annual Growth 08-13 2.0%
Annual Growth 13-18 3.4%
Wages $45.6bn
Businesses 311,692

Market Share
PricewaterhouseCoopers 8.4%
Deloitte Touche Tohmatsu 7.8%
Ernst & Young 7.8%
KPMG International 3.8%

Revenue vs. employment growth

Demand from professional, scientific and technical services

SOURCE: WWW.IBISWORLD.COM

Key External Drivers
Demand from professional, scientific and technical services
Demand from retail trade
Initial public offerings
Number of businesses
Demand from finance and insurance

Products and services segmentation (2013)

SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage Growth
Revenue Volatility Medium
Capital Intensity Low
Industry Assistance Low
Concentration Level Low
Regulation Level Heavy
Technology Change Low
Barriers to Entry Low
Industry Globalization Low
Competition Level High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 32
Executive Summary

After experiencing back-to-back years of revenue decline in 2009 and 2010, the Accounting Services industry returned to growth starting in 2011. Accounting industry firms offer a wide array of services including: consulting assistance, restructuring services, tax and other accounting related services, as well as audit and assurance work. As the economy expanded and business activity rose, revenue in the accounting industry improved. In the five years to 2013, industry revenue is expected to increase at an annualized rate of 2.0% to $99.1 billion.

An increase in US businesses has expanded clientele for small and large accounting firms

In the five years to 2013, the total number of US businesses increased, expanding the potential pool of clientele for small and large accounting firms and ultimately increasing demand for accounting services. Revenue growth for the industry’s largest companies was spurred by an increase in demand for advisory work on major corporate deals. Even revenue from audit services started to pick in 2011. The industry’s major players still derive their largest proportion of income from audit related services; however, this once vital line of business is decreasing in importance, as many accounting firms are successfully transitioning into full service consulting providers.

In 2013, revenue for the Accounting Services industry is expected to increase 5.3%. During the recession accounting firms cut costs by reducing payrolls. But once the economy improved and revenue began to increase, accounting firms started hiring new workers. In the five years to 2013, employment in the industry increased at an estimated annual average of 0.8%. Profit in the industry has risen since 2009, when it dropped to 13.2%. IBISWorld estimates industry profit to reach 13.9% in 2013.

In the five years to 2018, industry revenue is forecast to increase at an annualized rate of 3.4% to total $117.4 billion. The provision of value-added services and new platforms of expertise will supply growth for large and medium-size players, while smaller firms will take advantage of an expected increase business formation in the United States. While revenue is expected to grow at a healthy pace, wage growth is also expected to increase at an average annual rate of 2.3% in the five years to 2018. Increasing profit margins in the Accounting Service industry is dependent on controlling wage costs.

Key External Drivers

Demand from professional, scientific and technical services
Professional services firms of all types rely on certified public accountants. So rises in demand from these downstream industries will increase industry revenue. Demand from professional, scientific and technical services is expected to increase over 2013.

Demand from retail trade
Like other businesses, retail companies rely on the services of accounting firms. Therefore, an increase in demand from these downstream markets will boost revenue for industry operators. Demand from retail trade is expected to increase over 2013.

Initial public offerings
Accounting firms are used extensively for initial public offerings (IPOs), which fell significantly as a result of the recession. Growth in the number of IPOs will cause
Industry Performance

Key External Drivers continued

Demand for the industry’s services to rise. Initial public offerings are expected to increase over 2013.

Number of businesses
An increase in the number of businesses promotes further demand for industry services. During a recession, the number of employing businesses typically decreases, causing many accounting firms to experience a decline in demand. The number of businesses is expected to increase slowly over 2013. A dip in business creation could pose a potential threat for the industry.

Demand from finance and insurance
Finance and insurance companies are some of this industry’s largest clients. As such, increases in demand from these downstream markets will boost industry revenue. Demand from finance and insurance is expected to increase over 2013, representing a potential opportunity for the industry.

Current Performance

The Accounting Services industry weathered the early-stages of the recession by relying on the demand for its bankruptcy and restructuring services. In 2009 and 2010, when the fiscal crisis ebbed and countercyclical work related to insolvency and liquidation services slowed, industry revenue declined by 0.8% and 3.8% respectively. Starting in 2011, industry revenue rebounded.

Buoyed by economic growth, rising equity markets and a growing number of new businesses, the industry experienced an increase in demand for its traditional services, which include auditing, advisory and accounting related services. In the five years to 2013, industry revenue is expected to increase at an annualized rate of 2.0% to $99.1 billion. In 2013, industry revenue is expected to increase by 5.3%.
**Industry Performance**

**Impact of the recession**

Apart from insolvency services, the accounting industry’s traditional lines of business are sensitive to changes in economic growth. Growth in the number of US businesses drives industry performance, particularly for the small- and medium-sized firms, because it increases the number of companies that require accounting services. The industry also generates revenue from initial public offerings (IPO), merger and acquisition (M&A) activity, as well as business expansions. These sources of revenue for the Accounting Services industry were negatively impacted as a result of the recession.

In 2009, the industry shrank as the number of businesses in the United States declined 2.2%, as a result of the worsening economy. In that same year, the S&P 500, a broad measure of equity performance, dropped by 22.0%, and, the number of IPOs declined 10.6%, after an abysmal drop of 50.0% in 2008. For the largest accounting firms, auditing revenue comprises a significant proportion of total company revenue. The severity and abruptness of the recession temporarily altered the stable relationship between accounting firms and their clients. Public companies often retain the same auditing firms for extended periods, guaranteeing a stable financial reporting structure for the publicly traded company and a dependable stream of revenue for the accounting firm. But with the onset of the recession, companies that were strapped-for-cash, chose auditors based on price as opposed to name or loyalty considerations. Accounting firms responded by engaging in competitive price-cutting practices, pressuring fees and pulling audit revenue downward. Demand for tax and other strategic advisory services, provided by accounting firms also declined as a result of the recession and the Accounting Services industry experienced two consecutive years of revenue decline.

**Growth after the recession**

Industry revenue increased from 2011 onward. The number of businesses in the United States has increased offering an expanding pool of new clientele for accounting services. M&A and IPO activity improved as the credit markets stabilized and the equity markets increased. Even revenue from the auditing and assurance lines of business improved. In the five years to 2013, the auditing segment’s share of total industry revenue has been slightly decreasing, attributed not to a drop in audit revenue, but rather to strong growth from other accounting advisory services such as consulting. Audit revenue for the Big Four accounting firm has actually increased since 2011. Market saturation and competitive pricing on auditing fees may dampen growth from this key segment, but some evidence supports that auditing fees, as of late, have been rising. A survey from Financial Executives International, released in 2012, reported that public companies saw a 5.0% increase in external auditing fees in 2011.
Industry Performance

New sources of income

One factor that has driven long-term revenue growth for the largest firms has been the increasing number of services they offer. Many of these services are not directly related to traditional accounting services. An increasing proportion of Accounting Service firm revenue is generated from activities like business, risk and IT consulting. Other service areas that have grown include property services, back-office business services, management consulting and legal advice.

Under the Sarbanes-Oxley Act, auditing companies are not allowed to provide consulting services for the same clients that they audit. This law, however, has failed to stifle growth of the consultancy service segment of the large accounting companies. Consulting operations offer significant revenue generation potential, particularly in periods of economic growth. The management, operational and tax complications that accompany business growth often leads to increased demand for consulting services.

Profit expansion and an increase in industry businesses

During the recession, the number of industry firms contracted and many struggling firms reduced employees and cut salaries. Employment declined 1.0% and 2.1% in 2009 and 2010, respectively. Profit margins started increasing slightly in 2010, largely as a result of these cuts. Revenue expansion, starting in 2011, pushed industry profit even higher. In 2013, industry profit is expected to reach 13.9%. In the five years to 2013, the Accounting Services increased employment in response to increase revenue and demand for accounting services. Labor is not the only industry indicator that improved. Additionally in the five years to 2013, the total number of companies in the industry and the number of industry establishments increased at an estimated annualized rate of 1.5% and 2.1%, respectively.

Improved M&A and IPO activity offered an expanding pool of clientele to the industry

Revenue in the Accounting Services industry is expected to increase in 2014, driven by strong sales growth from the major industry players. In addition to their core auditing and corporate tax work, industry firms derive a significant proportion of revenue from advisory work on major corporate deals, such as M&As and capital market activities. These activities are expected to increase during the next five years, driving demand for major firms’ cyclical services. Smaller firms will also experience growth as the business market improves. In 2014, IBISWorld projects that industry revenue will increase 3.9% to $103.0 billion. In the five years to 2018, revenue in the industry is expected to increase at an average annual rate of 3.4% to $117.4 billion.

Industry Outlook
Industry Performance

Growth prospects

The Accounting Services industry traditionally offers services such as audit, advisory, and other tax and accounting related services. During the next five years to 2018, revenue in all these business segments is expected increase. The industry’s largest accounting firms will likely be the beneficiaries of an expected increase in corporate deal-making and initial public offerings. M&As are expected to increase in the five years to 2018. Additionally, IBISWorld estimates that the number of initial public offerings is expected to increase at an average annual rate of 4.8% during the same period, as a healthy stock market and increased business optimism will lead to a greater number of companies choosing to go public. The total number of US business is also expected to increase during the next five years, increasing the revenue outlook for accounting firms of all sizes, by expanding the pool of potential clientele.

Both large and small accounting companies will likely pursue opportunities in new, niche fields. As investor confidence returns, demand for cyclical services will rise

Future revenue growth will be dependent on firms offering add-on services to existing clients. Forensic accounting is anticipated to be an area of future growth, given the increasingly regulated nature of public accounting and the financial reforms that occurred as a result of the recession. The largest accounting companies will continue to sell themselves as experts in wide array of business consulting practices. Accounting service firms now offer services like business, risk, management, legal and IT consulting. Entering new fields of business or establishing a company as a specialist in a niche field, often increases branding or marketing costs. Any increase in marketing costs will be dwarfed by wage and employment related expenses, which will continue to comprise the industry’s largest cost burden.

Employment, wages and profit

In the five years to 2018, employment in the Accounting Services industry is expected to increase at an average annual rate of 1.9%. Wages are the accounting industry’s largest cost. Employees in the industry are highly educated, with an understanding of tax laws and accounting practices. Revenue growth is expected to outpace wage growth in the five years to 2018, but wages are also expected to rise at an average of 2.3% annually during that period. During the lean years of the recession, Accounting Service firms learned how to do more with less, adopting outsourcing and better management practices and utilizing labor-saving technologies. Whether these cost cutting policies will be remembered during the expected years of future growth remains to be seen. While profit margins are expected to rise as the economy continues to recover, industry profit growth will be limited by escalating wage costs.
The industry has grown at a faster pace than the overall economy

The number of companies and establishments in the industry are increasing

Firms in this industry are finding new niche services and markets, leading to increased revenue

**Key Features of a Growth Industry**
- Revenue grows faster than the economy
- Many new companies enter the market
- Rapid technology & process change
- Growing customer acceptance of product
- Rapid introduction of products & brands
Industry Performance

The Accounting Services industry is in the growth stage of its life cycle. Industry value added, which measures the industry’s overall contribution to the economy is forecast to grow at an average annual rate of 2.7% during the 10 years to 2018. In comparison, GDP growth is expected to increase at an annualized rate of 2.1% over the same period.

After a brief period of contraction and consolidation during the recession, the number of companies in the industry have expanded. In the 10 years to 2018, the number of industry establishments is estimated to increase at an annualized rate of 4.8%. Accounting firms have become more innovative, rapidly introducing new services. A wide breadth of services, in particular the bankruptcy related services offered by accounting firms, helped the industry insulate itself from the early years of the recession. When the economy picked up steam, many accounting firms began to specialize in other financial advisory fields. Businesses have readily accepted accounting firms as consulting experts and revenue, especially for the industry’s largest firms, have increased as a result of these new practices.
Products & Markets

Supply Chain  I  Products & Services  I  Demand Determinants
Major Markets  I  International Trade  I  Business Locations

Products & Services

KEY BUYING INDUSTRIES

31-33  Manufacturing in the US
Manufacturing companies use this industry for auditing and accounting.

54  Professional, Scientific and Technical Services in the US
Professional service industries use accounting firms for auditing and accounting.

9901  Consumers in the US
Households demand this industry’s services for personal accounting.

KEY SELLING INDUSTRIES

42343  Computer & Packaged Software Wholesaling in the US
This industry supplies computer equipment to accounting firms.

42412  Office Stationery Wholesaling in the US
Office stationary wholesalers provide stationery to industry operators.

44211  Furniture Stores in the US
Accounting firms purchase office furniture from this industry.

53112  Commercial Leasing in the US
Industry operators rent office space from commercial leasing companies.

Products & Services

Products and services segmentation (2013)

- 42.2% Auditing and assurance related services
- 35.4% Tax Services
- 20.2% Consulting
- 2.2% Other Services

Total $99.1bn

SOURCE: WWW.IBISWORLD.COM

Auditing and assurance services

Auditing and other assurance services are the industry’s largest product segment, accounting for 42.2% of total industry revenue. Audits are commonly done in reference to a company’s historical financial statements, whereby the auditor presents financial information in a manner that conforms to generally accepted accounting principles (GAAP). Audits are undertaken to ensure the validity of financial statements and to make sure that a company has not misstated its earnings or financial position. Because independence and expertise is valued in this type of service, most audit work is provided by certified public accountants (CPAs). CPAs provide a range of services in addition to auditing and assurance, including corporate advisory, financial and estate planning,
forensic accounting and various consulting services.

Audit and assurance services have typically made up the largest revenue component for the industry’s largest accounting firms. Business relationships between auditing firms and publicly listed clients are often long-standing, creating a reliable stream of income for accounting companies and the opportunity to pitch add-ons or related services. However, in the five years to 2013, the auditing segment’s share of total industry revenue has been slightly decreasing, attributed not to a drop in audit revenue, but rather an increase in other business-lines, such as consulting.

**Tax services**

Tax services comprise an estimated share of 35.4% of total industry revenue in 2013. The tax service sector can be further broken down into two segments: tax services for corporations (11.8%), and tax planning and preparation services for individuals and non-incorporated businesses (11.1%). Corporate tax services include tax-related merger and acquisition (M&A) services, corporate income tax preparation and a variety of other services. Businesses also turn to accounting firms to minimize their income taxes and ensure tax compliance to complex tax laws. The industry’s largest accounting companies, derive a larger percentage of revenue from their corporate tax services. PricewaterhouseCoopers (PwC), for instance, receives more than 25.0% of its revenue from its related tax business. For global strategic tax planning, larger firms with complicated tax structures naturally seek accounting firms with greater resources and an international footprint.

Many individuals and small businesses use accountants to keep track of their finances and ensure that funds are available when needed. These services are often provided in conjunction with other services, such as tax preparation, to consumers. In the five years to 2013, this segment has faced increasing competition from computer software, such as Quicken, which allows clients to perform basic accounting on their own. Furthermore, most businesses and consumers can now gain access to multiple bank and credit accounts online, reducing the overall demand for general accounting. Although some small firms also provide tax preparation for individuals, those services are covered in the Tax Preparation Services industry (IBISWorld report 54121d).

**Consulting**

In 2013, consulting services are expected to account for 20.2% of total industry revenue. Consulting is a major and rapidly expanding source of income among the largest industry companies. Deloitte generates 45.0% of its revenue from its consulting businesses, up from 41.0% in 2010. Consulting services include business valuation and transaction services; however, many firms also offer a wider variety of services, such as human resources and management consulting.

Following the Sarbanes-Oxley Act of 2002, many firms sold portions of their consulting businesses to avoid problems with conflicts of interest. Under the law, firms are not allowed to provide consulting services to companies that they audit. Consulting operations still offer significant revenue generation potential, particularly in periods of strong business and economic growth. Increased M&A activity and corporate expansions leads to increased demand for consulting services.
The services provided by accountancy firms have varying demand over the course of the overall business cycle. Regulatory and compliance mandates provide consistent demand for traditional accounting and auditing services. Public clients often retain auditing firms for extended periods guaranteeing a dependable stream of revenue for an accounting firm. Certain services offered by accounting firms are actually countercyclical, such as the demand for insolvency and receivership services. During the recession, as business bankruptcies increased, accounting firms saw a rise in revenue related to these services. Revenue from insolvency services are short-lived, accounting firms initially receive fees for performing bankruptcy or receivership work but they lose long-term revenue streams when the client no longer needs service on an annual basis.

Demand for other services such as tax and strategic advisory services are generally cyclical, moving in line with economic growth, growth in the global equity markets. Following the recession, the volume of IPOs and M&A activity declined. Recent economic growth, especially in the US markets, reversed this trend and ultimately aided the Accounting Services industry. Global growth also increases industry demand. In order to handle the complexity of international tax structures and regulations, the services of large accounting firms are needed. As corporations expand overseas, tax services and advisory fees for the largest accounting companies is expected to increase in the five years to 2013.

Demand for accounting services is also derived from the government, businesses and individuals requiring advice and assistance complying with statutory requirements such as company and individual taxation returns, audited accounts and financial reporting. Therefore, any increase in legislation or corporate governance standards will prompt further demand for accounting services.

The majority of revenue generated by the Accounting Services industry is derived from corporate clients, and the remainder from small businesses and other sources, which includes government clients. Many of the larger accountancy firms set an annual target of chargeable hours per partner, while smaller firms set an annual target for total fee income per partner. The industry standard for total chargeable hours of partners is usually set at a minimum of between 55.0% and 60.0% of hours worked.

Corporate clients use accounting firms for auditing and consulting services, including work on IPOs and M&As. The financial crisis caused a shift back to basics due to a decline in demand for deal-related advisory services; the volume of IPO and M&A activity dried up and struggling clients cut nonessential costs. On the other hand, demand from corporate clients for bankruptcies and insolvency issues increased for many firms. Corporate clients are expected to increase as a portion of total revenue during the next five years as the economy recovers and more IPOs and M&As take place. Globally an increase in regulations related to accounting matters and more intricate global tax structures will help drive revenue in the next five years to 2018.

Small businesses also use the professional services provided by this industry for developing budgets,
accounting advice, designing accounting systems and preparing financial statements. Additionally, many private practices offer tax consulting, estate planning and personal financial accounting to consumers. Unfortunately for industry operators, some of the general services provided have become easier for smaller clients to perform themselves. In the past five years, the increasing popularity of personal accounting software programs, such as Quicken, have caused this segment to generate a smaller proportion of industry revenue.

Government agencies outsource services provided by this industry. For example, Ernst & Young’s government clients include the United States Postal Service, the Internal Revenue Service and the United States Department of Justice. Similarly, Deloitte works with the United States Department of Defense, the FDIC, the Federal Reserve System and a number of individual states.

Exports do not occur in this industry based on its service-based nature, although many of the largest industry players have international operations. Accounting firms tend to open offices in foreign markets rather than provide services for international clients in US offices.

The Big Four companies are represented globally; PricewaterhouseCoopers (PwC), for instance, has offices in 158 countries. The majority of Big Four revenue is generated in international markets, with Asia being the fastest growing region. Despite this factor, the United States is still the largest market for these companies in terms of revenue.

International trade is growing in importance due to the convergence of international accounting standards and the penetration of global corporation into new geographic region, particularly in developing nations. To manage this geographic diversity, most of the Big Four accounting firms operate on a partnership basis, in which each office is run independently.
Business Locations 2013

Additional States (as marked on map)

1 VT 0.1
2 NH 0.2
3 MA 3.7
4 RI 0.3
5 CT 1.9
6 NJ 4.7
7 DE 0.2
8 MD 2.0
9 DC 1.6

Revenue (%)
- Less than 3%
- 3% to less than 10%
- 10% to less than 20%
- 20% or more

SOURCE: WWW.IBISWORLD.COM
In general, industry establishments are distributed according to regional population demographics because of the general need for tax preparations and similar accounting services. Much of this work is carried out by smaller, local or regional offices of larger companies. Larger and medium-sized industry firms are concentrated in metropolitan areas with high corporate presence and high business activity, therefore, industry revenue concentration and industry establishment concentration are not perfectly aligned.

Despite being home to only 15.3% of industry establishments, the Mid-Atlantic region accounts for 25.5% of revenue. One of the primary reasons for this is that the Big Four firms all have offices in New York. The Mid-Atlantic region is also the location of most major finance companies, which represent a large market for audit and consultancy revenue for major players.

The Southeast, as a region, has the highest proportion of US population. Accordingly, it has the highest concentration of industry establishments, at 25.1% in 2013. Accounting firms in states such as Florida (7.9% of establishments) serve corporate clients, but the majority these firms also serve smaller business and individuals, which generates less revenue than from larger clientele.
Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

In 2013, IBISWorld estimates that the Big Four accounting firms represent 27.7% of market share, indicating a low level of concentration. The Accounting Services industry has experienced consolidation since the late 1980s, when there were eight large accounting firms. After a series of mergers and the collapse of Arthur Andersen following the Enron scandal, the industry’s largest players have gotten bigger. In spite of this, medium-size firms have gained some ground following the recession because businesses have looked for ways to cut costs, including avoiding the high fees of big-name accounting firms. Unfortunately for these medium-sized firms, many of which have international partnerships, the majority of large corporations still require a Big Four audit. Although these firms can gain market share by acquiring smaller operators, this factor ultimately poses a limitation on market share of medium-size firms.

While the Big Four and mid-tier firms account for a large share of industry revenue, the industry is pyramid shaped in terms of market structure. The vast majority of accounting service establishments are small, local partnerships with a few employees, or sole proprietors without a payroll. An estimated 93.6% of industry establishments employ fewer than 20 workers. These firms generally serve small businesses and individuals, rather than high-value corporate clients.

Key Success Factors

Access to highly skilled workforce
An appropriately qualified and trained staff is essential to carrying out the complicated services provided by accounting firms.

Having a good reputation
Developing and maintaining a good reputation is vital for attracting clients.

Effective quality control
Effective quality control procedures in place are essential to meet the highest level of regulation and scrutiny.

Maintenance of excellent client relations
Maintaining a loyal, satisfied client base ensures repeat business.

Having a clear market position
Specialization or catering to a niche market focuses a firm’s resources and is a successful strategy for small to mid-size operators that are unable to compete on scale with major players.

Ability to compete on tender
The ability to tender competitively for contracts, and complete the job within budget, is a characteristic of successful firms.
**Profit**

The average profit margin (earnings before interest and taxes) in the industry is high, representing an estimated 13.9% of revenue. While profit varies based on company size and the type of work that accounting firms perform, high average profit margins are largely the result of firms' partnership structure. Partners receive most or all of their income as a share of profit, rather than as salaries. This means that labor costs for a significant proportion of the industry's workforce are accounted for in the profit segment of the cost structure, rather than the wages segment.

According to IBISWorld estimates, profit peaked just prior to the recession. The decline in profit was subdued as a result of cost-cutting measures such as hiring freezes and staff cuts. Profit margins stated improving in 2010. During the five years to 2018, profit margins are expected to increase as the economy continues to recover. New business formation, global growth, corporate expansions into emerging countries and a healthy merger and acquisition (M&A) environment for larger companies, all facilitate a greater demand for the assurance and consulting services provided by accounting firms. Revenue is expected to increase at a faster pace than wage growth, ultimately aiding profit margins during the five years to 2018.

**Wages**

Wages are the industry’s largest cost, comprising an estimated 46.0% of industry revenue in 2013. Medium- and large-size firms, in the industry, typically employ many non-partner accountants, who unlike partners, are paid in salary and not as a percent of profit. Employees in this industry are highly educated, with...
Competitive Landscape

Basis of Competition

Operators in the Accounting Services industry face a high level of competition. While the biggest accounting firms typically compete for large corporate clients, the demand for accounting services is high enough for small operators to flourish in the industry. Consequently, the industry has a huge number of small players, which increases the level of competition.

Internal competition

Accounting firms generally compete on the basis of service and price. The quality of service is very important: clients are more likely to change their accountants because they are dissatisfied with the level of service, rather than to obtain a lower price. Price-based competition rose during the recession, as many businesses looked for ways to cut costs. In spite of this, brand recognition still plays an important role in the auditing process and most large corporations insist on having a Big Four audit. These firms have the capacity to audit the largest of clients and the networks that can provide services on an international basis. Brand recognition gives a certain level of credibility for clients and lends a sign of quality and transparency. The importance of governance, risk management and more comprehensive auditing standards has shifted the competitive emphasis toward quality, and away from price.

External competition

The Accounting Services industry faces limited competition from firms outside of this industry. For example, some small firms face competition from the Tax Preparation Services industry (IBISWorld report 54121d) and the Payroll and Bookkeeping Services industry (IBISWorld report 54121b). Although some accounting firms provide bookkeeping, tax preparation and payroll...
Barriers to Entry

Characterized by a low level of concentration, this industry is mostly comprised of small firms employing fewer than 10 people. Although the industry has a high level of competition, there are few barriers to entry at the lower end of the industry, apart from obtaining formal qualifications or training. Individuals must pass the Uniform Certified Public Accountant Examination to be designated a certified public accountant (CPA). Some states require additional education, and in some cases experience, to receive the CPA designation. Furthermore, registration to practice as a CPA applies in most of the states, and larger operators seeking to audit publicly listed companies have to comply with specific SEC requirements and regulations.

The largest industry players have offices in major cities. Capacity constraints can be a problem for small firms attempting to serve large clients as each of the Big Four auditing firms has more than 100,000 employees. Consequently, firms entering the industry will face a significant barrier if they plan on serving clients of this size. Large accounting firms may also have access to specialized personnel or systems that allow work on more complex, high-value projects. Similarly, larger firms may be able to respond to regulatory changes faster as a result of workforce specialization.

Barriers to Entry checklist

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<tr>
<th>Barriers to Entry</th>
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<td>Competition</td>
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<td>Concentration</td>
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<td>Life Cycle Stage</td>
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<td>Technology Change</td>
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<td>Regulation &amp; Policy</td>
<td>Heavy</td>
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<tr>
<td>Industry Assistance</td>
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SOURCE: WWW.IBISWORLD.COM

54161), which provides consultation on management issues, including financial planning and budgeting. The Sarbanes-Oxley Act prohibits auditing firms from providing consultancy services to companies that they audit; however, this legislation has failed to hurt consulting-related revenue at the industry’s largest firms. Accounting firms now offer services like business, risk, management, and legal consulting, competing head-to-head with the Management Consulting industry.
Competitive Landscape

Small firms generally provide accounting services on a local or regional basis. However, the Big Four auditing firms are regarded as having a high level of globalization. Some firms are integrating their operations on a global basis, with partners sharing profit from a pool. Although three of the Big Four auditing firms are headquartered outside of the United States, each of the firms operates on a network basis. Consequently, domestic branches of each of the four firms are owned and managed independently. For the most part, each branch only serves clients in its respective country, so domestic branches primarily audit US companies.

In May 2000, financial regulators from 104 countries, represented by the International Organization of Securities Commissions, accepted the establishment of international accounting standards for cross-border listings, which commenced from early 2005. In the United States, the Sarbanes-Oxley Act, officially named the Public Company Accounting Reform and Investor Protection Act of 2002, became law after a series of large financial scandals, including, Enron, Tyco and WorldCom. Many of the provisions of the Act also apply to foreign companies operating in the United States, or to those having any dealings with US companies. This has also helped to increase industry globalization.
PricewaterhouseCoopers (PwC) was formed by the merger between Coopers & Lybrand and Price Waterhouse in 1998. The merger created the largest company in the accounting industry at the time. Globally, PWC employs about 180,000 people in member firms across 158 countries and 776 locations. PwC’s major clients include American Express, 3M and Kraft foods; half of PwC’s clients have yearly sales exceeding $10 billion per year.

Financial Performance

According to the company’s most recent annual review, about 35.5% of PwC’s revenue is generated in the Americas, totaling $11.2 billion in 2012. Like most firms in the industry, PwC faced declines in US revenue in 2009. These declines were associated with diminished demand for all services, including an 11.4% drop in consulting segment revenue. Since then, revenue in all business segments at PwC have improved. In 2012 alone, PwC consulting or advisory services rose by 16.7%. In the five years to 2013, IBISWorld estimates that PwC’s industry relevant US revenue is expected to increase at an annualized rate of 4.4% to $8.3 billion.

### PricewaterhouseCoopers (US industry-specific segment) – financial performance**

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2008</td>
<td>6.7</td>
<td>N/C</td>
<td>0.95</td>
<td>N/C</td>
</tr>
<tr>
<td>2008-2009</td>
<td>6.2</td>
<td>-7.5</td>
<td>0.86</td>
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</tr>
<tr>
<td>2009-2010</td>
<td>6.3</td>
<td>1.6</td>
<td>0.98</td>
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<tr>
<td>2010-2011</td>
<td>6.9</td>
<td>9.5</td>
<td>0.99</td>
<td>1.0</td>
</tr>
<tr>
<td>2011-2012</td>
<td>7.8</td>
<td>13.0</td>
<td>1.02</td>
<td>3.0</td>
</tr>
<tr>
<td>2012-2013</td>
<td>8.3</td>
<td>6.4</td>
<td>1.09</td>
<td>6.9</td>
</tr>
</tbody>
</table>

*Year-end June, **Estimates
Deloitte Touche Tohmatsu (Deloitte) is a UK private company, whose origins date back to 1845. Now, headquartered in New York, Deloitte employs nearly 200,000 people in a network of offices located in over 153 countries. Deloitte Touche Tohmatsu operates under a Swiss Verein structure; members are individual firms and are independent of one another. In the United States, the company primarily operates as Deloitte LLP and its four largest subsidiaries: Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Consulting LLP and Deloitte Financial Advisory Services LLP. Domestically, the company employs some 57,000 people and operates in about 90 cities. Like the other major players in the industry Deloittee focuses on audit, tax services, consulting, financial advisory and risk management.

In the five years to 2013, the company has grown through a variety of acquisitions. It acquired consulting firm, BearingPoint’s North American Public Service segment for $350.0 million, after BearingPoint filed Chapter 11 bankruptcy in February 2009. This increased Deloitte’s public sector clientele, as BearingPoint had previously been one of the US government’s largest contractors. The company is currently focusing its acquisition efforts on firms that specialize in security and privacy, financial advisory.

**Financial Performance**

In terms of global service lines, Deloitte derives a greater proportion of company revenue from consulting activities than any other major accounting firm. Consulting services comprise 45.0% of company revenue and consulting continues to be one of Deloitte’s fastest growing business segments. According to the company’s latest annual review, tax services only make up 19.0% of total company revenue, while audit and enterprise risk services make up 31.0% of total company revenue. In the last five years, the proportion of revenue generated from Deloitte’s audit services has declined. This is not the result of declining revenue in the audit business segment, but rather because other segment’s at Deloitte, such as financial advisory and consulting services have experienced more rapid revenue growth.

In the five years to 2013 total global revenue at Deloitte increased at an

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
<th>Employees (thousand)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>N/C</td>
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<td>N/C</td>
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<td>5.3</td>
<td>1.9</td>
<td>182</td>
<td>7.1</td>
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<td>2011-2012</td>
<td>31.3</td>
<td>8.7</td>
<td>5.6</td>
<td>5.7</td>
<td>193</td>
<td>6.0</td>
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<td>2012-2013**</td>
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<td>7.3</td>
<td>5.9</td>
<td>5.4</td>
<td>201</td>
<td>4.1</td>
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</table>

*Year-end May, **Estimate

**Source:** Annual Report and IBISWorld
Major Companies

Player Performance continued

Ernst & Young (EY) has about 167,000 employees and operates in 140 countries. The firm provides assurance, tax, transaction and advisory services. The company primarily focuses on 14 key industries, ranging from asset management and banking to utilities and the public sector. The firm’s clients include Lockheed Martin, Capital One, the Internal Revenue Service (IRS) and Apple. EY’s assurance operations, which include auditing and accounting services, represent about 45.0% of global revenue.

Financial Performance
EY has operations in four geographic areas: Asia-Pacific, the Americas,

Deloitte Touche Tohmatsu (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
</tr>
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<tbody>
<tr>
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<td>N/C</td>
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<td>2009</td>
<td>6.1</td>
<td>-4.7</td>
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<td>2010</td>
<td>6.3</td>
<td>3.3</td>
<td>0.85</td>
<td>4.9</td>
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<td>2011</td>
<td>6.8</td>
<td>7.9</td>
<td>0.89</td>
<td>4.7</td>
</tr>
<tr>
<td>2012</td>
<td>7.3</td>
<td>7.4</td>
<td>0.92</td>
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<tr>
<td>2013*</td>
<td>7.7</td>
<td>5.5</td>
<td>0.95</td>
<td>3.3</td>
</tr>
</tbody>
</table>

*Estimate

SOURCE: IBISWORLD

Ernst & Young – financial performance**

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
<th>Employees (thousand)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2008</td>
<td>23.0</td>
<td>N/C</td>
<td>4.6</td>
<td>N/C</td>
<td>144</td>
<td>N/C</td>
</tr>
<tr>
<td>2008-2009</td>
<td>21.4</td>
<td>-7</td>
<td>4.2</td>
<td>-8.7</td>
<td>144</td>
<td>0.0</td>
</tr>
<tr>
<td>2009-2010</td>
<td>21.2</td>
<td>-0.9</td>
<td>4.5</td>
<td>7.1</td>
<td>141</td>
<td>2.1</td>
</tr>
<tr>
<td>2010-2011</td>
<td>22.9</td>
<td>8.0</td>
<td>4.6</td>
<td>2.2</td>
<td>152</td>
<td>7.8</td>
</tr>
<tr>
<td>2011-2012</td>
<td>24.4</td>
<td>6.6</td>
<td>4.8</td>
<td>4.3</td>
<td>167</td>
<td>9.9</td>
</tr>
<tr>
<td>2012-2013</td>
<td>26.0</td>
<td>6.6</td>
<td>4.9</td>
<td>2.1</td>
<td>171</td>
<td>2.4</td>
</tr>
</tbody>
</table>

*Year-end June, **Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
EY employs more than 50,000 people in the Americas. In 2012, revenue in the Americas totaled $9.8 billion. In the five years to 2013, IBISWorld estimates that Ernst & Young’s industry specific share of US revenue increased at an expected average annual rate of 2.5% to $7.7 billion.

**Ernst & Young (US industry-specific segment) – financial performance**

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>6.8</td>
<td>N/C</td>
<td>0.95</td>
<td>N/C</td>
</tr>
<tr>
<td>2009</td>
<td>6.3</td>
<td>-7.4</td>
<td>0.85</td>
<td>-10.5</td>
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<tr>
<td>2010</td>
<td>6.3</td>
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<td>0.87</td>
<td>2.4</td>
</tr>
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<td>2011</td>
<td>6.8</td>
<td>7.9</td>
<td>0.92</td>
<td>5.7</td>
</tr>
<tr>
<td>2012</td>
<td>7.3</td>
<td>7.4</td>
<td>0.93</td>
<td>1.1</td>
</tr>
<tr>
<td>2013*</td>
<td>7.7</td>
<td>5.5</td>
<td>0.94</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: IBISWORLD
Headquartered in the Netherlands, KPMG International is the smallest of the Big Four accounting firms in the US in terms of revenue and personnel. KPMG provides audit, tax and advisory services, employing more than 152,000 people and operating in 156 countries worldwide.

**Financial Performance**

According to the company’s most recent annual review, global revenue at KPMG increased by 4.4% to $23.0 billion in its fiscal 2012 year. Audit services are KPMG’s largest service segment, comprising 44.8% of company revenue, followed by advisory services (34.1%) and tax services (21.1%). KPMG’s largest customer market by industry, is the financial services industry, followed closely by the industrial markets. Like the other largest accounting firms, KPMG has experienced higher revenue growth rates internationally and in emerging economies when compared to Europe or the Americas.

The recession took its toll on KPMG. In 2009, the company’s revenue fell more than any of the other Big Four accounting firms, US revenue declined 10.6% and worldwide revenue fell 11.5% that year. Poor domestic performance caused the firm to reduce US employee headcount by 3.0%. In 2010, KPMG’s US revenue started to increase by 2.4%; revenue has continued to increase across most service-lines since the recession. Currently, KPMG employs 41,320 workers in the Americas, and sales in this region accounts for 32.3% of total company revenue. In the five years to 2013, US industry-relevant revenue is expected to increase at an annualized rate of 2.9% to reach $3.8 billion.

### KPMG International (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ billion)</th>
<th>(% change)</th>
<th>Operating Income ($ billion)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>3.3</td>
<td>N/C</td>
<td>0.46</td>
<td>N/C</td>
</tr>
<tr>
<td>2009</td>
<td>3.7</td>
<td>12.1</td>
<td>0.49</td>
<td>6.5</td>
</tr>
<tr>
<td>2010</td>
<td>3.3</td>
<td>-10.8</td>
<td>0.45</td>
<td>-8.2</td>
</tr>
<tr>
<td>2011</td>
<td>3.4</td>
<td>3.0</td>
<td>0.49</td>
<td>8.9</td>
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<td>2012</td>
<td>3.6</td>
<td>5.9</td>
<td>0.52</td>
<td>6.1</td>
</tr>
<tr>
<td>2013*</td>
<td>3.8</td>
<td>5.6</td>
<td>0.56</td>
<td>7.7</td>
</tr>
</tbody>
</table>

*Estimate

**SOURCE:** IBISWORLD
Major Companies

Other Companies

RSM McGladrey Inc.
Estimated market share: 1.6%
McGladrey is the fifth largest provider of auditing, tax and consulting services in the United States. McGladrey offers assurance, tax, consulting and wealth management services. The company has some 7,000 employees across its 90 offices, and is expected to generate nearly $1.6 billion in US industry relevant revenue in 2013. RSM McGladrey and McGladrey & Pullen are separate legal entities. McGladrey, which is a subsidiary of H&R Block, operates in this industry through an administrative services agreement with McGladrey & Pullen, which is an independent partner-owned CPA firm. In July 2009, McGladrey & Pullen terminated the services agreement, which had started in 1999. After months of mediation and arbitration that ended in December 2009, the two firms reached announced their intention to extend the existing service agreement until May 2015.

Grant Thornton LLP
Estimated market share: 1.5%
Although Grant Thornton has offices in more than 100 countries, each member firm is a separate legal entity. In the United States, the firm is the sixth largest accounting services firm, with about $1.5 billion in US industry-relevant revenue for 2013. Like many operators in this industry, Grant Thornton provides audit, tax and advisory services. In October 2010, the firm increased its consulting business through the acquisition of Huron Consulting Group.
Capital Intensity

The Accounting Services industry is highly labor intensive. Employees in the industry are highly educated and knowledgeable in the field of tax law and accounting. Many employees are accredited professionals, and work in this field frequently requires personal service and face-to-face contact with clients. Accountants must also keep abreast of any changes to tax codes created by government agencies or acts of legislation. All these factors contribute to high salaries in the industry.

Wages are the Accounting Services industry’s largest expense, representing an estimated 46.0% of industry revenue in 2013. The industry’s capital investment is low; most ongoing expenses are related to the upgrade and maintenance of office and computer equipment, including specialized software packages, and

Tools of the Trade: Growth Strategies for Success

New Age Economy
Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Labor Intensive
Accounting Services
Wholesale and Retail. Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Change in Share of the Economy

Investment Economy
Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Old Economy
Agriculture and Manufacturing. Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.
Operating Conditions

Capital Intensity continued

Communications equipment. In the five years to 2018, labor’s proportion of industry revenue is expected to decrease marginally. Although some of the major accounting firms increased hiring after the recession, many firms have learned to operate more efficiently through strategic outsourcing and the utilization of information technology.

Technology & Systems

Apart from computerization of office activities, major firms have also upgraded their information and research databases, which have increased productivity. Laptops, Blackberries and, more recently, cloud computing, have allowed accountants to “bring the office to the client.” According to a study by CCH, a software company that specializes in tax and finance programs, almost a quarter of firms have staff that work remotely. This aspect makes cloud computing especially important as it allows a person to access their work from anywhere that has an internet connection.

Accounting software can be used to automate some of the bookkeeping processes required for some projects. Technological innovation has become increasingly important in an industry that faces stiffening regulation standards. Industry operators must cope with changes that would otherwise slow them down by becoming more efficient. Firms, however, will need to be careful about placing sensitive financial documents in harm’s way. Consequently, industry operators need to make sure that they implement safeguards for their clients’ information.

Revenue Volatility

The Accounting Services industry exhibits a medium level of revenue volatility. Overall, revenue in this industry is sensitive to the business cycle for most of its services, and demand generally moves in line with economic conditions. During recessions, diversity in clients and a demand for countercyclical work, such as bankruptcy and restructuring services, can mitigate severe revenue losses. As a result, this industry

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* Axis is in logarithmic scale
Operating Conditions

Revenue Volatility continued

Experiences lower revenue volatility than other related service industries. After the recession, as the economy expanded, the industry experienced strong revenue growth. In the five years to 2013, revenue growth for the Accounting Services industry increased at an annualized rate of 2.0%.

Regulation & Policy

In order to be designated a certified public accountant (CPA), an individual must pass the Uniform Certified Public Accountant Examination (Uniform CPA Exam). The exam is designed by American Institute of Certified Public Accountants (AICPA) and given by the National Association of State Boards of Accountancy. Some states require further education and experience in order for an individual to be considered a CPA. In general, only licensed CPAs are allowed to audit the financial records of a company. Currently, Arizona, Kansas, North Carolina and Ohio are the only states in which an individual without a CPA designation can perform audits. On the other hand, it is against the law in many states for a person to use the CPA title if they have not been certified.

Regulation of this industry increased following inquiries by the Securities and Exchange Commission and Congress into the financial collapse of Enron. Congress established a new industry oversight board, the Public Company Accounting Oversight Board (PCAOB), and barred accounting firms from providing certain consultancy services to clients under the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

The SEC has responsibility for ensuring that proper auditing standards and outcomes are achieved for all companies listed on the stock market. Given that the Big Four firms are largely the auditors for these companies, the SEC has a significant interest in monitoring the standards set by the Big Four. The SEC has also established auditor independence rules.

Before the PCAOB, the Public Oversight Board (POB) was responsible for the profession’s self-regulation, which included a peer review of the audit and accounting policies, procedures, standards and documents of major accounting firms. However, the POB closed its doors in May 2002 as investor losses mounted following high-profile accounting scandals during the early 2000s. In its place, the PCAOB was created under Sarbanes-Oxley to oversee public company auditors. Although the PCAOB is a private-sector non-profit corporation, it has regulatory functions that protect the interests of the public and investors alike.

In general, industry operators perform audits according to generally accepted auditing standards (GAAS). In the United States, the AICPA has 10 standards that affect a variety of industry-specific issues, including how financial statements are reported and interpreted. GAAS also requires an auditor to have adequate training and take sufficient time to perform an audit before its reporting.
Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is Low and the trend is Steady

While the Accounting Services industry does not receive any direct government assistance, operators receive some support from industry associations, such as the American Accounting Association and the American Institute of CPAs. These associations provide services for accountants, accounting firms and the industry as a whole, including continuing education courses, codes of conduct and legislative advocacy.
## Key Statistics

### Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports</th>
<th>Imports</th>
<th>Wages ($m)</th>
<th>Domestic Demand</th>
<th>Number of Businesses With Employees (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>76,932.7</td>
<td>50,273.9</td>
<td>288,107</td>
<td>279,632</td>
<td>1,090,291</td>
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<td></td>
<td>40,118.8</td>
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<td></td>
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### Annual Change

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (%)</th>
<th>Industry Value Added (%)</th>
<th>Establishments (%)</th>
<th>Enterprises (%)</th>
<th>Employment (%)</th>
<th>Exports (%)</th>
<th>Imports (%)</th>
<th>Wages (%)</th>
<th>Domestic Demand (%)</th>
<th>Number of Businesses With Employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4.3</td>
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<td>2.5</td>
<td>1.9</td>
<td>0.6</td>
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<td>0.5</td>
<td>5.8</td>
<td>N/A</td>
<td>6.9</td>
</tr>
<tr>
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### Key Ratios

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<th>Year</th>
<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage ($)</th>
<th>Share of the Economy (%)</th>
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Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.
Jargon & Glossary

Industry Jargon

AUDITING The act of reviewing a company’s financial operations to ensure regulatory compliance.

INITIAL PUBLIC OFFERING (IPO) The issuing of a company’s common stock to the public for the first time.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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