


Benchmarking CPA Firms For Productivity And Efficiency: A Decade Comparison 1994 Versus 2004

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 PA firms are continuously being ranked and compared to each other. Most rankings are based on total revenue or total clients and convey a measure of prestige. But is ranking by total revenue the best way to compare firms, and benchmark and judge performance? Linking revenues to the resources used to generate them would give a more meaningful basis for evaluating firm performance regardless of size.

For comparisons or benchmarking among firms to be reliable, it is often assumed that the firms should be restricted to a relevant peer group. For CPA firms, it is very difficult to clearly identify a peer group based solely on total revenue. There are wide ranges of firm revenues across CPA firms and much to learn from the operational performance of firms of different sizes. Benchmarking only similar-sized firms ignores the potential for improvement by comparing to high performing other-sized firms.

CPA firms can benchmark and evaluate firmwide performance relative to other firms using ratios of firm revenue to resources, such as revenue per partner, revenue per professional, revenue per employee, or revenue per office. Each of these revenue ratios provides measures of average productivity or efficiency of resources within the firm. Set forth below is the distribution of total revenue and resources (number of partners, professionals, employees, and offices) of the top 100 CPA firms providing accounting and auditing, tax, and management advisory (MAS) services in 1994 and 2004 as published by *Accounting Today*.

You will see that productive and efficient CPA firms can be large or small, and their ability to be productive varies with their mix of services. Ranking of firms based on the production of revenue per resource utilized can provide more useful benchmarks. The Big CPA firms produce the most revenue, but are not consistently as efficient or effective as some smaller CPA firms in utilizing firm resources. The pattern of outstanding performers, in productivity and efficiency measures, vary based on their relative percentages of revenues from accounting and auditing, tax services, and MAS. The top performing CPA firms have significantly higher percentages of revenue from MAS, and significantly lower percentages of revenue from tax services.

PRODUCTIVITY AND EFFICIENCY MEASURES

Most CPA firms provide clients with accounting and auditing, tax, and MAS services. In the following paragraphs and tables, only those firms with revenues in all three components were considered. Firms in the top 100 were excluded due to non-CPA status (e.g., Triple Check and H & R Block in 1994 and Jackson Hewitt in 2004) and one CPA firm (Campos & Stratos in 1994 and RSL-Forensic Accountants in 2004) was excluded because revenues were generated from only one area, hence the analysis includes 92 firms in 1994 and 93 firms in 2004.

Five separate and complementary ratios are calculated to provide a more complete evaluation of each accounting firm's production and efficiency. While revenue per firm measures total productivity and demand for CPA services, this measure does not indicate how effectively the firm utilizes its resources to create those revenues. Two alternative measures of productivity are revenue per partner and revenue per professional. The primary objective of each firm organized as a partnership is to maximize the contribution of each partner to the bottom line. Revenue per professional measures the ability of the firm to effectively generate revenues by providing client services. Firms generate revenues by billing for the hours their partners and professionals work for clients. The relationship between revenue per partner and revenue per professional provides information on the relative distribution of partners to other professionals.

Comparing revenue per partner and revenue per professional to other CPA firms may reveal a firm's structural and productivity problems. A firm with high revenue per partner and low revenue per professional compared to other firms may indicate that the firm has too many professionals not effectively contributing to the bottom line.

Two other measures of efficiency are revenue per employee and revenue per office. Revenue per employee measures the effective utilization of the CPA firm's entire supporting workforce. Revenue by office indicates the effective utilization of capacity to meet client's needs geographically. For example, a firm with high revenue per office but low revenue per employee may mean the firm is meeting their client's needs geographically, but is overstaffed. If the same firm also had low revenue per professional, then a review of both the professional and nonprofessional workforce might indicate excessive staff, necessitating a strategic workforce reduction.

In the tables below, these productivity and efficiency measures are used to create alternative rankings of the top CPA firms. The use of these ratios as benchmarks should help firms of all sizes to assess themselves and determine the need for structural changes in their delivery of client services.

In Tables 1A and 1B, the largest ten CPA firms in total revenue for 1994 and 2004, respectively, are listed in descending order (rank). Not surprisingly, the Big Six of 1994 are the top producers of total firm revenue for 1994 with Arthur Andersen ranked first. The other firms include Grant Thornton, McGladrey & Pullen, BDO Seidman, and Kenneth Leventhal & Co. Also, not surprisingly, the Big Four of 2004 are the top producers of total firm revenue with Deloitte Touche ranked first. The other firms of 2004 include RSM McGladrey, Grant Thornton, American Express Tax and Business Services, Central Business Services and Crowe Group, LLP.

Tables 2A, for 1994, and 2B, for 2004, list summary statistics of the productivity and efficiency measures for the CPA firms being considered.

Tables 3A and 3B list the top ten CPA firms in descending order of revenue per partner. The Big Six of 1994 are all included while the other four firms rank as low as number forty-seven in total revenues. Likewise, the Big Four of 2004 are all included while the other six firms rank as low as number ninety-one in total revenues. This indicates that size alone does not result in greater returns per partner. Smaller firms can be as effective as the largest firms in generating revenue from their partners.

Tables 4A and 4B list the top ten CPA firms in descending order of revenue per professional. Only two of the Big Six of 1994 are included. The other eight firms of 1994 rank as low as number ninety-two in total revenue. Only three of the Big Four of 2004 are included. The other seven firms of 2004 rank as low as number ninety-five in total revenue as reported by *Accounting Today*. These results also indicate that size is not a guarantee of the most effective use of professionals. On average, smaller firms appear to be as effective in generating revenue per professional as the big firms. Larger firms may have excessive numbers of professionals which is consistent with the current reduction in workforce for many firms.

Tables 5A and 5B list the top ten CPA firms in descending order of revenue per employee. Only three of the Big Six of 1994 are included. The other seven firms of 1994 rank from number ten to number ninety-two in total revenue. In 2004, all the Big Four were represented. The other six firms in 2004 rank from number thirty-seven to number ninety-five in total revenue as reported by *Accounting Today*. This confirms that size is not a guarantee of most efficient use of support personnel. On average, smaller firms can be as efficient in their use of support personnel as the big firms.

Tables 6A and 6B list the top ten CPA firms in descending order of revenue per office. Four of the Big Six of 1994 are included. The other six firms of 1994 rank as low as number thirty-eight in total revenues. All of the Big Four firms of 2004 are included while the other firms rank as low as number fifty-two in total revenues. Again, size alone does not result in more effective use of office capacity. Smaller firms can be as, or more, effective in utilizing facilities in meeting client needs than the big firms.

Tables 3A through 6B illustrate alternative measures of productivity to total firm revenue. These measures clearly show that total revenue, a proxy for size, does not result in increased productivity or effectiveness in utilizing resources in CPA firms. One reason for the ability of smaller firms to generate greater returns with fewer resources can be explained by the mix of services they provide to their clients.

Tables 7A and 7B show the distribution of total revenue into three components for each measure of productivity discussed above. This table demonstrates that, in 1994, the top ten firms for each measure of productivity have significantly larger percentages of their revenue from MAS. By 2004, the top ten firms had experienced a dramatic change in their revenue mix. Specifically, the top ten firms for each productivity measure have percentages of revenue from MAS ranging from 26.4% to 39.0% in 1994 while it dropped to 10.5% to 17.5% in 2004. Firms not in any top ten category have not experienced similar changes with MAS percentages ranging between 18.9% and 20.4% in 1994 and 18.9% to 19.8% in 2004 respectively.

In addition, the top ten firms for each productivity measure have experienced a significant increase in the percentages of their revenue from tax services over the last ten years. Specifically, these percentages range from 19.8% to 24.7% in 1994 and 30.4% to 38.7% in 2004, respectively. Firms not in any top ten category have percentages of revenue from tax services ranging from 30.6% to 31.0% in 1994 and 31.4% to 32.4% in 2004, respectively.

Last, in 1994 there was no significant difference in the percentage of revenue from accounting and auditing services between the top ten firms in each productivity category and other CPA firms. The percentages cluster in the high 40 to low 50 percentiles with the one exception, firms in the top 10 of revenue per partner. A dramatically different result can be seen in the analysis of revenue per partner ranking. Not only do the top ten CPA firms have significantly greater revenue from MAS than other firms, they also have substantially less revenue from tax services and accounting and auditing.

In 2004 there was a difference, for most categories, in the percentage of revenue from accounting and auditing services between the top ten firms in each productivity category and other CPA firms. For four of the five categories, the percentage of accounting and auditing was larger for the top ten firms versus the other firms.

Audit firms have undergone numerous changes in the last decade. From mergers to the Sarbanes-Oxley Act, these changes have had an impact on the profession. While most of the general relationships between large and small firms continue, the individual names of many of the small firms in the top ten lists have changed. For example, only three of the top ten firms in Tables 4A and 4B are the same and of the ten firms listed in Table 4A, only five firms have the same name on the 2004 Top 100 list. Of the five firms in Table 4A still on the 2004 list, two have very different rankings. The ranking by total revenue per firm in 1994 and 2004, respectively, for those five firms are: Suby, von Haden & Associates (81, 44); Rachlin Cohen & Holtz (88, 58); Ernst and Young (2, 2); Anchin, Black & Anchin (31, 37); and Doern Mayhew & Co (65, 52). It will be interesting to see if the next ten years lead to as much, or more, change than the last decade.

Table 1A Largest 10 CPA Firms – Total Revenue/Firm For 1994 in the U.S.

Rank	Firm	Total 2004 Revenue (in millions)
1	Arthur Andersen & Co.	\$3,317.2
2	Ernst & Young	2,543.0
3	Deloitte & Touche	2,230.0
4	KPMG Peat Marwick	1,907.0
5	Coopers & Lybrand	1,783.0
6	Price Waterhouse	1,570.0
7	Grant Thornton	229.0
8	McGladrey & Pullen	208.9
9	BDO Seidman	201.0
10	Kenneth Leventhal & Co.	195.0

Table 1B Largest 10 CPA Firms – Total Revenue/Firm For 2004 in the U.S.

Rank	Firm	Total 2004 Revenue (in millions)
1	Deloitte & Touche	\$6,511.00
2	Ernst & Young	5,260.00
3	PricewaterhouseCoopers	4,850.00
4	KPMG	3,793.00
5	RSM McGladrey/McGladrey & Pullen	595.86
6	Grant Thornton	484.76
7	American Express Tax & Business Services	367.50
8	Century Business Services	354.38
9	BDO Seidman	350.00
10	Crowe Group LLP	247.30

Table 2A Productivity and Efficiency Measures For 1994

Variable	Average	Range
Revenue/Firm	\$170,400,000	\$8,000,000-\$3,317,200,000
Revenue/Partner	\$801,729	\$394,118-\$2,746,479
Revenue/Professional	\$120,159	\$60,773-\$233,813
Revenue/Employee	\$93,709	\$54,863-\$175,993
Revenue/Office	\$7,108,802	\$536,00-\$35,668,820

Table 2B Productivity and Efficiency Measures For 2004

Variable	Average	Range
Revenue/Firm	\$270,860,000	\$18,000,000-\$6,511,000,000
Revenue/Partner	\$1,290,000	\$488,958-\$4,000,000
Revenue/Professional	\$240,000	\$121,939-\$414,783
Revenue/Employee	\$140,000	\$78,030-\$220,977
Revenue/Office	\$11,320,000	\$757,097-\$71,549,450

Table 3A Top Ten CPA Firms- 1994 Revenue/Partner

Name of Company (rank in Table 1A)	Revenue/Partner (in thousands)
Kenneth Leventhal & Co. (10)	\$2,746
Arthur Andersen & Co. (1)	2,263
Price Waterhouse (6)	1,686
Deloitte & Touche (3)	1,559
Coopers & Lybrand (5)	1,490
Ernst & Young (2)	1,440
Föllmer, Rudzewiz & Co. (47)	1,390
Zelenkofske Axelrod & Co (34)	1,377
KPMG Peat Marwick (4)	1,290
Freidman, Eisenstein, et. al. (19)	1,267

Table 3B Top Ten CPA Firms- 2004 Revenue/Partner

Name of Company (rank in Table 1B)	Revenue/Partner (in thousands)
Rothstein, Kass & Co (22)	\$4,000
Stout, Causey & Horning (94)	2,670
Ernst & Young (2)	2,630
Deloitte & Touche (1)	2,491
Morrison, Brown, Argiz & Farra (78)	2,488
PricewaterhouseCoopers (3)	2,425
KPMG (4)	2,338
Schonbraun Safris McCann Bekritsky & Co. (91)	2,111
Singer Lewak Greenbaum & Goldstein (74)	2,100
Carlin, Charron & Rosen (51)	2,000

Table 4A Top 10 CPA Firms – 1994 Revenue/Professional

Name of Company (rank in Table 1A)	Revenue/Professional (in thousands)
Kenneth Leventhal & Co. (10)	\$234
Konigsberg, Wolf & Co. (92)	178
Suby, von Haden & Associates (81)	175
Deloitte & Touche (3)	174
Rachlin Cohen & Holtz (88)	173
Ernst & Young (2)	172
Friedman, Eisenstein et. al (19)	171
Anchin, Block & Anchin (31)	167
Doern Mayhew & Co. (65)	161
Windes & McClaughry (89)	158

Table 4B Top 10 CPA Firms – 2004 Revenue/Professional

Name of Company (rank in Table 1B)	Revenue/Professional (in thousands)
Honkamp Krueger & Co (90)	\$414
Ernst & Young (2)	365
KPMG (1)	328
Holthouse Carlin & Van Trigt (95)	324
Berkowitz Dick Pollack & Brant (70)	323
Stonefield Josephson Inc. (89)	318
Deloitte & Touche (1)	317
Anchin, Block & Anchin (37)	308
Eisner (23)	307
Kaufman, Rossin & Co (68)	294

Table 5A Top 10 CPA Firms – 1994 Revenue/Employee

Name of Company (rank in Table 1A)	Revenue/employee (in thousands)
Kenneth Leventhal & Co (10)	\$176
Konigsberg, Wolf & Co (92)	160
Anchin, Black & Anchin (31)	138
Deloitte & Touche (3)	137
Ernst & Young (2)	126
Friedman, Eisenstein et. al. (19)	123
Rachlin Cohen & Holtz (88)	121
Windes & McClaughry (89)	120
Katz, Sapper & Miller (56)	119
KPMG Peat Marwick (4)	117

Table 5B Top 10 CPA Firms – 2004 Revenue/Employee

Name of Company (rank in Table 1B)	Revenue/employee (in thousands)
Frank, Rimerman & Co.(55)	\$220
Deloitte & Touche (1)	220
Ernst & Young (2)	219
PricewaterhouseCoopers (3)	210
KPMG (4)	208
Aronson & Co (54)	196
Stonefield Josephson Inc. (89)	194
Holthouse Carlin & Van Trigt (95)	194
Anchin, Block & Anchin (37)	194
Berkowitz Dick Pollack & Brant (70)	193

Table 6A Top 10 CPA Firms – 1994 Revenue/Office

Name of Company (rank in Table 1A)	Revenue/office (in thousands)
Arthur Andersen & Co (1)	\$35,668
David Beron & Co (22)	24,000
Ernst & Young (2)	23,546
Deloitte & Touche (3)	20,090
Anchin, Block & Anchin (31)	20,000
Freidman, Eisenstein, et. al. (19)	19,000
Goldstein, Golub Kessler & Co. (20)	18,100
Margolin Winer Evans (38)	15,000
Kenneth Leventhal & Co (10)	15,000
Coopers & Lybrand (5)	14,983

Table 6B Top 10 CPA Firms – 2004 Revenue/Office

Name of Company (rank in Table 1B)	Revenue/office (in thousands)
Deloitte & Touche (1)	\$71,549
Ernst & Young (2)	61,162
Anchin, Block & Anchin (37)	42,600
KPMG (4)	40,351
PricewaterhouseCoopers (3)	38,800
Blackman Kallick Bartelstein (42)	34,000
Berdon (25)	32,000
Mahoney Cohen & Co (47)	30,500
Rubin, Brown, Gornstein & Co. (50)	30,030
Doeren Mayhew (52)	29,900

Table 7A 1994 Service mix of Top Ten vs. other CPA Firms

	MAS % Top 10	MAS % Others	Tax % Top Ten	Tax % Others	A&A % Top Ten	A&A % Others
Revenue/firm	27.8%	20.3%	23.4%	30.6%	48.5%	49.1%
Revenue/partner	39.0	18.9	19.8	31.0	40.9	50.0
Revenue/professional	27.4	20.3	23.4	30.6	49.2	49.0
Revenue/employee	26.4	20.4	24.7	30.6	49.0	48.9
Revenue/office	28.9	20.2	22.4	30.8	48.6	49.1

Table 7B 2004 Service mix of Top Ten vs. other CPA Firms

	MAS % Top 10	MAS % Others	Tax % Top Ten	Tax % Others	A&A % Top Ten	A&A % Others
Revenue/firm	17.5%	18.9%	32.9%	32.1%	46.7%	40.5%
Revenue/partner	14.9	19.3	30.4	32.4	44.7	40.7
Revenue/professional	10.5	19.8	34.3	31.9	40.7	40.8
Revenue/employee	11.6	19.6	38.7	31.4	43.0	40.9
Revenue/office	14.5	19.3	35.9	31.7	51.2	39.9

Notes