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RESULTS OF 2008 ROSENBERG MAP SURVEY RELEASED

2007 was a great year for the U.S. CPA Industry, capping off a fantastic 5 year run. But economic woes beckon slower going ahead.

Wilmette, IL. The CPA industry enjoyed a fantastic year in 2007, a year that most experts feel will mark the end of a frenetic 5 year boom in demand for CPA firm services. Firms with annual net fees over \$2 million in 2007 (referred to as the “Over \$2M Group”) experienced the following in 2007:

- Annual net fee growth was a robust 10.8%, down slightly from 11.4% in 2006. This marks the end of three consecutive years of stronger growth than the year before.
- Average income per partner was \$369,000, up from \$350,000 in 2006.

End of a Golden Age

From 2003 to 2007, the CPA industry experienced what many have termed a Golden Age. Rocked by the Enron and Andersen debacles in 2002, the CPA industry rebounded mightily, fueled by the impact of Sarbanes-Oxley (SOX) work and a mostly strong economy. But with

SOX work declining for the first time in its short history and the 4th quarter 2007 economic slowdown and other economic woes, CPA firms are poised to weather the storm.

Substantial increase in profitability

Strong demand for services, increased leverage, rising billing rates and continuing efficiencies in technology enabled firms to post a 5.4% increase in profitability, as measured by income per partner. But this increase in profits is out of sync with the strong revenue growth of 10.8%.

Marc Rosenberg, creator of The Rosenberg MAP Survey, said: “This anomaly fascinated us, so we dug down deeper into the data and found that the larger firms in our survey (those over \$10 million in annual fees) moved aggressively on their succession planning strategies of developing their staff into partners and merging in smaller firms. This caused an upward spike in the average number of partners at these firms, after years of their partner ranks being flat. The result: profit pools were spread over a larger number of partners, bringing down the metric that profitability is measured by – average income per partner. It’s another way of saying that CPA firms invested in their future more than ever before.”

Firms in the \$2 million to \$10 million range also posted strong profits. Revenues increased 9.7% while income per partner rose 7% to \$331,000. Said Rosenberg: “We consider this group to represent mainstream multi-partner CPA firms.” Their story is quite different from the larger, Over-\$10 million group. Mainstream firms experienced strong real growth, measured by their aggregate billable hours, but because they were more challenged to hire staff and their partner ranks remained flat, partners were forced to do client work that normally would be performed by

staff. “Partners’ paychecks may have been fatter, but they worked awfully hard for them. Most would have been happy to earn a bit less and work less, too.”

The bittersweet outlook for 2008

Since the late 1990s, CPA firms have been screaming for more staff in what most observers say has been the biggest shortage of professional staff in the history of the profession. Now, for the first time in 10 years, the pipeline of staff is poised to improve ever so slightly. The reduced need for staff by SOX-hungry national firms, coupled with increasing numbers of accounting graduates, are reducing firms’ difficulties in finding people. Said Rosenberg: “The irony is that this will all happen as the CPA industry hunkers down with economic and SOX work slowdowns.”

Other noteworthy findings and results

1. Merger activity among small and medium sized firms will continue at a heated pace as baby boomer partners increasingly turn to their only viable exit strategy – upward mergers. This has already caused a dramatic shift in the merger landscape: the swelling number of sellers is creating a buyer’s market. Firms that need to merge up are stalling because of their anxiety in pulling the merger trigger. But a lot of firms are going to find it more difficult than they thought to find a buyer because they waited too long.
2. Mother Nature’s clock continues to tick relentlessly for Baby Boomer partners. 57% of all partners at multi-partner firms are now over age 50.

3. The evolution of tax return outsourcing continues to be lethargic. Only 9% of all firms in our survey plan to do a meaningful amount of outsourcing in 2009, compared to 7% last year.

The Rosenberg MAP survey includes the results of 348 firms, most of which range from \$2-\$20 million in annual fees. Nearly 100 MAP statistics are measured. *Accounting Today*, in its September 24, 2007 issue, wrote that the Rosenberg Survey “is generally accepted as the barometer for practice management for midsized CPA firms.” Marc Rosenberg said: “We are passionate about our commitment to making our survey the most accurate national MAP survey in the profession. Every year, 30-40% of the input forms we receive contain gross errors. I personally review every survey form and get revisions where necessary. We simply will not include data in our survey that doesn’t look right.”

The Rosenberg Associates provides practice management consulting to CPA firms from coast to coast. Its founder and president, Marc Rosenberg, CPA, is a nationally known consultant, author and speaker. For the past four years, he has been named by *Accounting Today* as one of the 100 most influential people in the public accounting profession; he has also been recognized by *INSIDE Public Accounting* as one of the most recommended consultants to CPA firms in the country. Rosenberg consults primarily on partner compensation and retirement, succession planning, CPA firm mergers, partner retreats and strategic planning.

The Rosenberg MAP Survey can be purchased for \$450. Call our office at (847) 251-7100 to order or visit us at www.rosenbergassoc.com for the order form.