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KPMG U.S. Strategic Analysis

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KPMG U.S. Strategic Audit

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Abstract

KPMG U.S. is a public accounting firm that provides various services, such as audit, tax, and consulting. This analysis assesses the external forces affecting KPMG utilizing a PESTEL analysis, the industry forces utilizing a Porter's Five Forces analysis, its current strategy, competitive advantages, and the resources capabilities of the firm. Based off the assessment, this paper gives further strategic recommendations for KPMG to remain at the top of the accounting industry.

Keywords: KPMG, Accounting, Big Four, PESTEL, Strategic Audit, Strategy, Porter's Five Forces

Strategic Audit of KPMG US

Background

Founded in 1897, KPMG has become one of the "Big Four" accounting firms employing approximately 227,000 professionals in over 154 countries. It provides audit, tax, and advisory services for publicly listed companies, large private enterprises, and public sector bodies. In 2022, it generated around 35 billion US dollars and has consistently generated more than 20 billion dollars in revenue for the past fourteen years. However, within the US, KPMG still falls as the smallest of the Big Fours when speaking in terms of revenue (Statista Research Department, 2022). To dive even further, KPMG US is known for providing a wide range of tax services including individual and business, international, tax controversy, tax planning, and tax research (KPMG, 2023).

Timeline

In 1897, James Marwick and Roger Mitchell, formed a partnership in New York City named Marwick, Mitchell & Company. The firm decided to start with a banking practice to focus on only one industry at a time. Once that proved successful, it started offering more tailored services to its clients. Fourteen years later, Marwick, Mitchell & Company merged with an accounting firm in Great Britain run by William B. Peat. Through this process, their name changed to Peat, Marwick, Mitchell & Company. The merger proved beneficial to both parties allowing strengthened operations in Europe and the growing North American market. It continued these operations for sixty years.

Between 1973 and 1976, Peat, Marwick, Mitchell & Company grew rapidly and eventually became one of the "Big Eight" major accounting firms in the United States. Much of this success can be attributed to the addition of the Securities and Exchange Commission's (SEC) sixteen new disclosure requirements for publicly traded companies that ultimately mandated the need for accounting services. The demand for KPMG's accounting services skyrocketed. Accounting regulations continued to grow with the Accounting Principles Board and Financial Accounting Standards Board (FASB) and Peat, Marwick, Mitchell & Company found itself in several lawsuits being charged with the failure of exposing financial malfeasance and losing the trust of the public. The FASB placed blame on the industry for not fulfilling its "watchdog" role with corporate America and letting fraudulent activities slip through the cracks. Because of the accusations and lawsuits, Peat, Marwick, Mitchell & Company became the first public accounting firm to inaugurate a peer review process after asking Arthur Young & Company to perform an audit to help strengthen its credentials.

Peat, Marwick, Mitchell & Company continued to grow after the merger of Klynveld Main Goerdeler (KMG) in 1987 forming the company known today as KPMG, an international firm. It strengthened and unified its core businesses of audit, tax, and consulting services with a strong emphasis on the consulting practice. In 1999, the United States branch decided to take on its own image and renamed to KPMG LLP, a branch of KPMG International (Reference for Business, 2023).

Business Model

KPMG works as a mass market business model with no specific or significant differentiation between the different customers it pursues. The firm wants to offer their services (audit, tax, and advisory) to all industries of all sizes. It pursues these different clients through the direct relationships held between the partners and customers. It is also known to use social media, webcasts, sponsorships, and conferences to attain new clientele. Not only is attaining new customers important for KPMG but being able to maintain the strong relationships with the clients it already has is just as important. It puts a heavy focus on working alongside their customers and providing easily accessible education courses on its website, so that clients can also learn during the process. It also provides phone, email, and hotline support.

KPMG has a very value-driven structure with the goal of providing premium and personal service. Its biggest costs include the costs of services with the main resources of the firm being the employees. Its only source of revenue comes from the fees being charged for their services which can vary by type of client and project (Cleverism, 2017). Its primary industry competitors include the other "Big Four" firms: Deloitte, PricewaterhouseCoopers (PwC), and Ernst & Young (EY).

PESTEL Analysis

By definition, PESTEL analysis is a widely used tool created to understand strategic risk by identifying the changes and effects of the external environment. These measured external variables are those beyond the control of a specific company but are needed to create a strong strategy. This analysis focuses on six different variables: political, economic, social, technological, environmental, and legal. To compete with its rivals, KPMG US must be able to understand the six variables that help shape the competitive landscape of the tax service industry in order to continue development and growth (Oxford College of Marketing, 2021).

Political:

The political variable plays a huge role in the tax service industry in the form of tax laws. The tax laws are constantly changing due to policies put in place by the American government.

Clients rely heavily on tax professionals to understand and respond properly, so KPMG US must be aware of the implementation of new or preexisting policies and adjust its services accordingly (Peterdy, 2023).

Economic:

The rising and falling of exchange, interest, and inflation rates are a few economic conditions the accounting industry needs to consider. The fluctuation of these rates within the United States economy can create new challenges for the preparation of financial statements and taxation for clients. The presentation of both financial statements and disclosures will be affected along with a plethora of other accounting items (PwC, 2023).

Social:

It is no secret that the pandemic had a strong effect on the labor supply within the United States with many people re-evaluating what they want from their careers. It did no favors to the already shrinking supply of accounting professionals with a recorded amount of 1.63 million accountants employed in 2021, which is a 17% decrease from the 2019 number. Tax seasons are being powered through with fewer staff to shoulder the weight, putting accounting firms in the position to see more cases of burnout. The high turnover can partially be attributed to the shift of the working environment brought on by the pandemic replacing a team atmosphere with working alone and connected with others only through a laptop (Iacone, 2022).

Technological:

Technology has created a huge shift in the way accountants work over the years and it serves as the backbone for many firms. For example, workflow automation saves accountants time, increases revenue, and influences staff engagement levels. Also, with all the constantly changing tax laws and regulations, technology needs to be reliable to better allow professionals access to the correct information. The new up and coming artificial intelligence (AI) can help accountants find answers to tough questions to help support their clients. Having awareness of these new technological changes and keeping up with them will put accounting firms ahead within the industry (Iacone, 2022).

Environmental:

The environmental variable does not play as big of a role as the other five do but is still one to consider. United States federal securities laws are cracking down on reducing global greenhouse gas emissions. The global transition to a low-carbon economy may impact policy, legal, technology, and market changes. These changes could potentially pose financial, liability, and reputational risks for large corporate companies such as KPMG US. The SEC has not formally required any disclosures related to climate information, but many firms have started to ensure their businesses remain relevant and viable in the future (Ross, 2023).

Legal:

When thinking of legal issues related to the accounting industry, the first thing to come to mind is the backbone of the financial regulatory industry, Generally Accepted Accounting Principles (GAAP). This set of rules is the basis for almost all accounting methods and practices. Not only is adhering to GAAP incredibly important, but there are also plenty of other laws and rules that apply to a specific situation or industry. Like the political factors within the accounting industry, the legal environment and the laws that follow them are constantly changing (UND, 2020).

Porter's Five Forces

Michael E Porter published a model known today as Porter's Five Forces which is used as a strategic management tool for companies to determine the competitive landscape of their industry. These five forces are threat of new entrants, power of suppliers, power of buyers, substitute services, and industry rivalry. The collective strength of these five forces determines the ability to profit within a potential industry (Bruin, 2020).

Threat of New Entrants:

The threat of new entrants within the tax service industry is low at the level KPMG is currently at. Achieving "Big Four" status is something that has taken KPMG years to reach and entry into this level of tax services right away would be very costly for new entrants to achieve. However, within the overall accounting and tax service industry, the threat of new entrants could be placed at medium. Many accountants working at corporate/practice jobs have left to start their own firms or begin freelancing. It is forecasted that new entrants into the accounting industry will increase at a rate of 2.7% per year within the United States.

Power of Suppliers:

Within the accounting industry, there are subjectively three big costs: rent, wages, and technology. Established firms need to have an office space, so finding a location that is available and central to their clients is important which would put the power of property owners at a medium. However, since the pandemic, many firms have switched to a working from home style that would completely reduce their need for an established office space. Next, the bargaining power of the labor market is considered high. For an established firm, such as KPMG, there is a high demand for highly skilled accountants and the need to entice these accountants to stay working for them instead of switching to another Big Four or opening their own practice.

Finally, the bargaining power of software vendors is high as well. There is an importance to keeping up with the newest technology and the high switching costs of switching from one vendor to the other.

Power of Buyers:

The bargaining power of buyers is low in this industry due to the low control over prices. Tax services are required for all publicly traded and privately owned companies by law which means they will pay for these services to be completed. Another reason the bargaining power of buyers is low is due to the high costs involved in switching from tax firms, so ultimately buyers stay loyal to the firm from the beginning.

Threat of Substitute Services:

The threat of substitution within the accounting industry is also low due to the requirements for tax services through regulatory agencies. As mentioned above, all publicly traded and privately owned companies are required to file taxes, so firms have fewer options other than switching to a different firm. However, at the smaller practices level, clients now have the ability to switch from a practice to an online or self-service solutions such as TurboTax, H&R Block, or many others.

Industry Rivalry:

KPMG operates in a small sector of the larger accounting industry occupied by four major firms. Competition among those four firms is fierce, with the Big Four continually competing to gain position and become market leaders. Usually, firms compete within their market niches or geographic areas (Hooper, 2015). However, there are mid-level firms starting to win over clients who used to work with Big Four firms, which means the Big Four might not be competing just among themselves for much longer.

Current Strategy

United by its values — integrity, excellence, courage, together, and for better — KPMG works with Fortune 500 organizations, multinational enterprises, Family Offices, and others to best help with their tax and legal needs. It strives to build a target operating model, improve compliance processes, manage complex transactions, and overall add more value for its clients. However, a lot has changed within the tax service and accounting industry over the past few years. Political shifts, technology innovation, tax reforms, regulatory changes, new business/consumer demands, and the emergence of new business models are only a few of the items that have required KPMG to change and adapt its strategy to keep operating within this new reality. This new reality can be attributed to the COVID-19 pandemic.

With the world changing, so has KPMG's services which have evolved for the more modern complexities and challenges relating to technology and collaboration. It utilizes its network of professionals by pushing them to draw on the experience and knowledge of professionals in other areas of the organization (KPMG, n.d). KPMG Strategy is a group within KPMG that was created to address growing demands within the marketplace and work towards finding solutions. This group was created to help continue the overall competitive advantage of the firm through different transformation strategies. One of which those strategies put a strong focus on talent acquisition because, as mentioned above, one of its most important competencies is the utilization of its professional workforce. It strives to not only find exceptional talent to join the firm but create incentives to keep them as well (KPMG, 2018).

Competitive Advantages

After doing extensive research, KPMG's main competitors are the other Big Four members: Deloitte, PwC, and EY. For the most part, all the Big Four's specific modes of operation are broadly similar programs, but to slightly different degrees to compete within the market. KPMG plans to increase its market share, revenue, win new clients, and retain existing clients. To keep its market share and increase revenue, it has started identifying clients from many industries and finding additional services to supply to already existing clients. It has also reported using seasonal pricing by relaxing pricing targets outside of peak periods (ie. tax season). Another way to save costs, KPMG has a pay policy based on the geographical markets where the demand for labor is stronger (Gov. UK). Overall, the status and reputation of the KPMG as member of the Big Four gives them a competitive edge when companies of that capacity are looking for tax services.

Resources and Capabilities

Headquartered in New York, NY, KPMG has a total of seventy-six office and retail locations across the United States. This number of offices serves as a tangible resource that gives KPMG access to different geological areas and clients. Not only does KPMG have tangible resources, but it also has plenty of intangible resources such as brand reputation, intellectual property, patented technology, customer lists, and trade names. KPMG has built a brand reputation, customer list, and a name for itself for years showing customers that it can provide high-quality products and earn their trust. Their name KPMG is recognizable not only within the United States, but globally, and communicates its brand promise and values. One of KPMG's newest patented technologies providing it with a sustainable competitive advantage is the new patent for using blockchain throughout an AI lifecycle. This new patent would establish an AI that would be used to store, track, and trace client data more safely (KPMG, 2020).

Recommendations

After thoroughly assessing the external and internal forces within the tax service industry, KPMG should continue to work on attracting and maintaining accounting professionals, remain competitive with technological advances, and take into consideration that its potential rival may no longer be just the other Big Four firms. First, the rate at which accounting professionals are entering the workforce is not keeping up with the amount leaving. This puts a firm like KPMG at a disadvantage because its services are designed around the knowledge of accounting professionals. KPMG needs to create incentives for potential employees and current employees (i.e. competitive pay, opportunities for advancement). Next, keeping up with the technological advances will continue to allow the firm to remain competitive. Technology can create safer, more efficient processes that will not only benefit its clients, but its employees as well. Finally, the Big Four accounting firms have dominated the industry for a while, but it is important to acknowledge that many mid-sized firms are starting to provide services and prices that can compete with the Big Four. KPMG must be aware of this new threat and be ready to react and adapt to stay competitive.

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