UK Accountancy Sector Outlook Report

An industry under pressure or primed for change?

UK Accountancy Sector
Outlook Report

2024/2025


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mountain to climb.
Others,
a chance to scale.
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Foreword

Welcome to the HSBC UK inaugural Accountancy Sector Outlook Report for 2024 – '25, with Accountancy Age, which delves into the strategic priorities and challenges facing the UK accountancy sector. Through a comprehensive survey of senior management leaders, we aim to illuminate the key trends shaping the industry's transformation and innovation.

Victoria Ritchie,
Head of Professional & Business Services
HSBC UK

The survey, conducted between June and September 2024, garnered responses from diverse firms, ranging from those with turnovers under £20 million to those exceeding £1 billion. The results offer a nuanced perspective on various aspects of the sector, including:

- **Mergers and acquisitions (M&A) and private equity activity:** A significant portion of respondents view M&A as a strategic growth driver, recognising its potential to accelerate market consolidation and expand service offerings.
- **Industry trends:** The sector continues to be influenced by technological advancements, regulatory changes, and evolving client needs. Firms are increasingly adopting digital solutions to enhance operational efficiency and deliver innovative services.
- **Environmental, social, and governance (ESG) objectives:** ESG considerations have gained prominence, with firms recognising the importance of integrating sustainability practices into their business models.
- **Talent management and retention:** Attracting and retaining top talent remains a critical challenge. Firms are implementing strategies to foster employee engagement, offer competitive compensation packages, and provide opportunities for professional development.
- **Technology adoption:** Technology plays a pivotal role in driving growth and efficiency. Firms are investing in advanced technologies to streamline operations, improve decision-making, and enhance client experiences.

- **Macroeconomic impact:** The macroeconomic environment significantly impacts strategic decision-making. Firms are closely monitoring economic indicators and adapting their strategies to navigate potential challenges and opportunities.
- **Regulatory compliance:** Adhering to complex regulatory requirements is a key priority. Firms are investing in robust compliance frameworks to mitigate risks and maintain regulatory integrity.
- **Future growth:** Despite the dynamic landscape, most of the respondents expressed optimism about the sector's future growth prospects. Firms are actively exploring new avenues for expansion, such as diversifying service offerings and entering new markets.

As we look ahead, the accountancy sector navigates an increasingly complex and competitive environment where firms must balance short-term challenges with long-term strategic goals. By embracing innovation, prioritising talent development, and aligning with evolving client needs, the industry can position itself for sustained growth and success.

We extend our sincere gratitude to all participants who contributed to this report. Their insights have provided invaluable insights into the current state and future trajectory of the UK accountancy sector.

Executive Summary

Professionals from UK accounting firms have provided their views on the past 12 months, and the outlook for the market in 2025 – despite facing macroeconomic and industry-specific challenges, the sector has shown notable resilience and growth, which is set to continue.

- Over **70% of firms anticipate a rise in M&A activity and private equity investment** in 2025.
- **67% of firms see talent acquisition and retention as a top challenge,** followed by cyber security risks (46%).
- Almost **40% of firms see entering a new market as a priority** over the next 12 months.
- **Less than 10%** of firms are **seeking B-Corp Accreditation.**
- Over **30% of firms are already using AI** with a further **23% planning to use it in 2025.**
- Just over **75% of firms have seen their technology spend increase** year-on-year.
- **15%** of firms admit they **are not adapting to technological advancements well.**

One of the key trends has been the change in demand for advisory services, with firms increasingly focusing on corporate finance, business recovery, and digital transformation.

The ongoing economic uncertainty, marked by inflation and rising interest rates, has spurred demand for restructuring and insolvency services, particularly as firms seek to navigate the complexities of a slower economic environment.

And yet, several larger firms have seen interest in their advisory and deals services decline. Most recently, EY announced it was pausing the start date for its latest cohort of graduates, citing a disappointing market for M&A and private equity activity as the primary reason for sluggish advisory revenue growth since the start of the business's fiscal year in July.

Technology adoption remains a major focus, with firms of all sizes increasingly investing in cloud accounting, automation, and big data analytics to improve efficiencies and offer more value-added services.

The trend towards digitalisation has accelerated, especially as firms aim to streamline operations and meet regulatory changes such as the extension of the Making Tax Digital (MTD) initiative.

Another major shift has been the growing emphasis on ESG objectives. Accountancy firms are positioning themselves to support businesses in meeting ESG goals, capitalising on their expertise in reporting and data analysis. This trend aligns with the broader movement toward sustainability, particularly in light of the energy crisis and increasing expectations from clients and stakeholders.

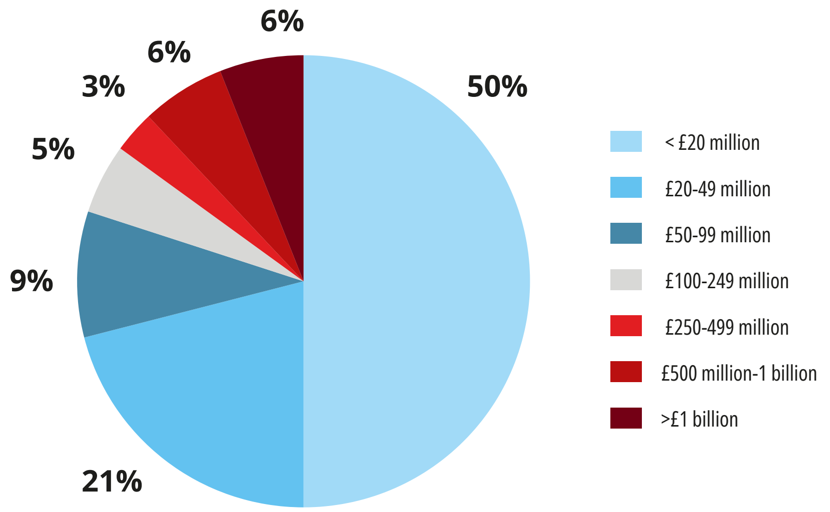
Methodology

With this context, HSBC UK is pleased to partner with Accountancy Age to publish the **2024 Accountancy Sector Outlook Survey**.

The survey aims to shed further light on how accounting firms respond to these challenges and opportunities, offering detailed insights into industry sentiment, future growth strategies, and key trends.

The survey covers a broad spectrum of firm sizes, with respondents ranging from small firms with revenues under £50 million, to the largest players in the industry exceeding £1 billion in annual turnover.

The survey was conducted to gauge industry sentiment, explore strategic priorities, and assess the evolving landscape of challenges such as talent retention, technology adoption, and ESG objectives. By understanding how firms across various revenue segments are navigating these dynamics, the report aims to provide actionable insights to support informed decision-making for firms of all sizes.



Respondent profile

Within the analysis, **small firms are classed as <£50m revenue, medium firms as £50-500m, and large firms as >£500m.** When segments have been grouped, an average percentage has been taken.

A total of 100 responses were captured between June - September 2024.

KEY DATA POINTS:

Small firms (<£50 million):
These firms show a mixed but generally optimistic outlook, with 29.6% having a very optimistic outlook for the next two years. Just over 5% of these firms expressed a pessimistic outlook for the next two years.

Medium firms (£50-500 million):
These firms tend to be more cautious, with the majority (58.8%) displaying a somewhat optimistic or neutral outlook.

Large firms (>£500 million):
Large firms tend toward optimism, with 16.7% very optimistic and 75% somewhat optimistic. None of these firms expressed being pessimistic about the outlook for the next two years.

01 Industry Outlook

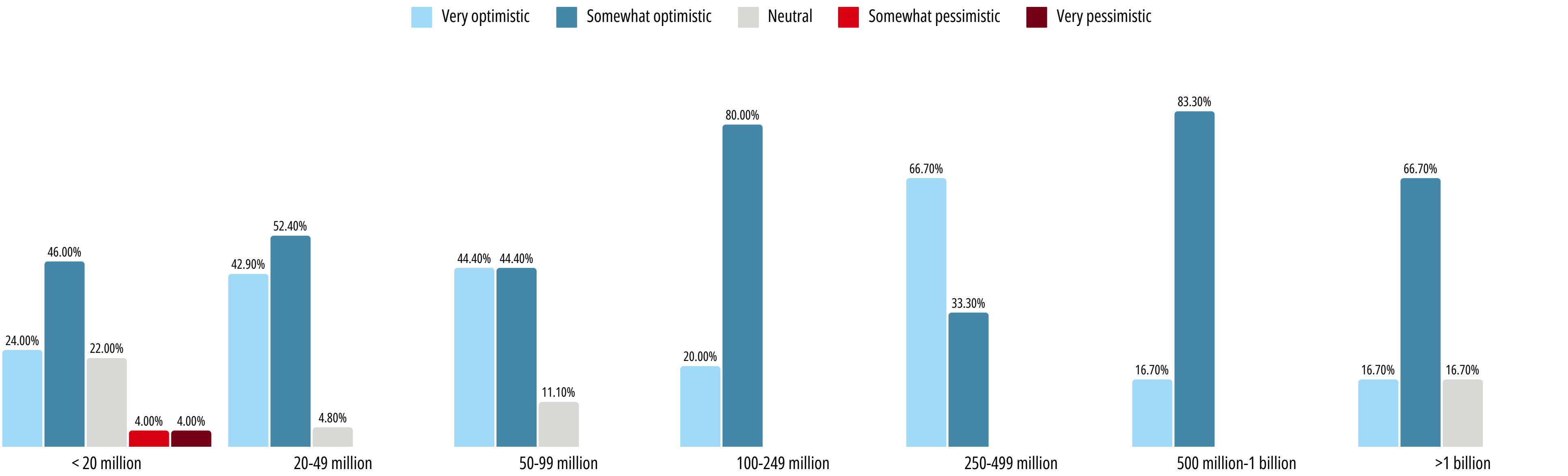
The UK accounting sector stands at a pivotal juncture as firms across the revenue spectrum navigate an increasingly complex landscape. As inflationary pressures and regulatory changes reshape the economic environment, **firms are adopting different outlooks depending on their size, operational agility, and ability to adapt.**

The divide in outlook between smaller and larger firms tells a story of growth potential versus market maturity.

Smaller firms, which often enjoy greater operational flexibility, **see the current environment as fertile ground for expansion.**

Their optimism is likely driven by their ability to tap into niche markets, pivot quickly to client needs, and leverage emerging opportunities such as advisory services and digital transformation. **These small firms are likely capitalising on the post-pandemic recovery**, where business formation rates have soared and clients seek more personalised services.

Fig 1: How would you describe your outlook for the industry for the next two years?



Small firms display a balanced sentiment, with most respondents being somewhat optimistic but with notable neutrality and minimal pessimism (only 6%).

Industry optimism increases with company revenue, as large firms consistently express stronger confidence about the next two years. There are a number of reasons why large firms may display greater optimism. They tend to have stronger financial resources, stable and diverse client bases, and the ability to invest in advanced technologies like AI and automation.

Their global reach, well-established reputations, and capacity to adapt to regulatory changes **provide them with a competitive edge and resilience in uncertain times.** These advantages position them to capitalise on growth opportunities.

Medium firms also show a clear shift toward optimism, dominated by somewhat optimistic and very optimistic responses, with no neutral or pessimistic sentiment.

In essence, the outlook across revenue segments reflects the evolving priorities of each group.

Small firms are buoyed by opportunities for growth and technological advancements, while large firms are more focused on consolidating their positions in an increasingly complex environment. This division in sentiment paints a broader picture of an industry where **innovation and stability must be balanced carefully as firms plan for the future.**

02

Anticipated M&A and Private Equity Activity

KEY DATA POINTS:

Small firms (<£50 million):
A cautious stance is reflected among smaller firms. Just over 20% anticipate a significant rise in M&A and private equity investment. A small percentage, 4.2%, expect a decrease in activity.

Medium firms (£50-500 million):
Highly optimistic about M&A activity, with a strong majority expecting increases. Specifically, over 41.2% expect a significant increase in deals over the next two years, indicating a clear focus on growth.

Large firms (>£500 million):
Exhibited the strongest optimism around M&A and private equity investment - over 80% see an increase over the next two years. No large firm expressed a decrease as seen with the small and medium firms.

As the UK accounting sector continues to evolve, M&A and private equity investments are emerging as critical strategies for firms looking to expand and innovate.

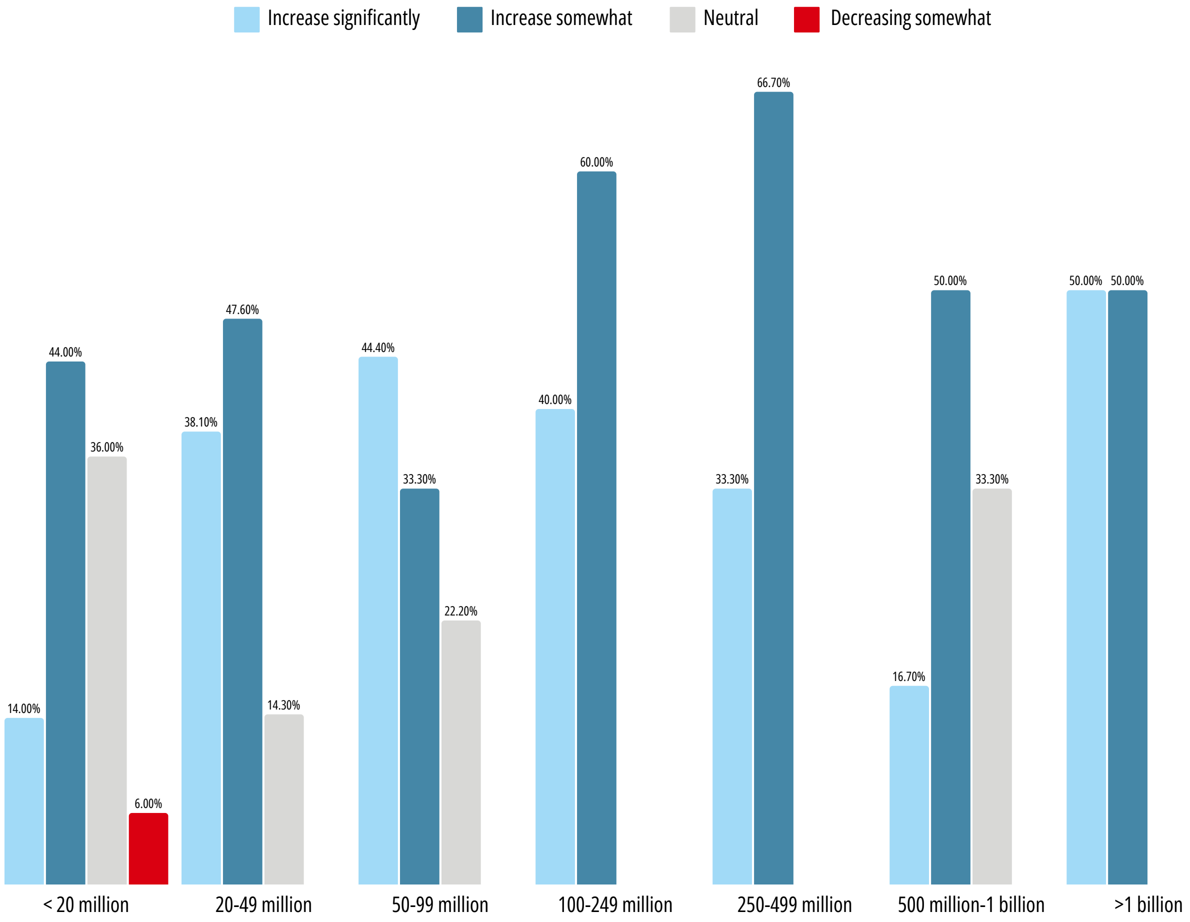
The accounting sector's focus on M&A and private equity mirrors broader trends in the professional services industry, where **firms are seeking to consolidate their market positions and diversify their service offerings** to meet growing client demand.

The survey shows **medium and large firms increasingly see M&A and private equity as routes to transformation.**

For medium firms, M&A represents an opportunity to scale quickly and access new capabilities, such as technological expertise or niche market specialisations, which are increasingly important in the face of digital transformation.

On average, **63% of medium firms expect a moderate increase in M&A and private equity activity, while 39% anticipate a significant increase.** This demonstrates strong optimism about leveraging these avenues for growth, with only a small portion remaining neutral on the potential benefits of M&A or private equity deals.

Fig 2: Is your firm anticipating a rise in M&A activity and private equity investment in the accountancy sector in 2025?

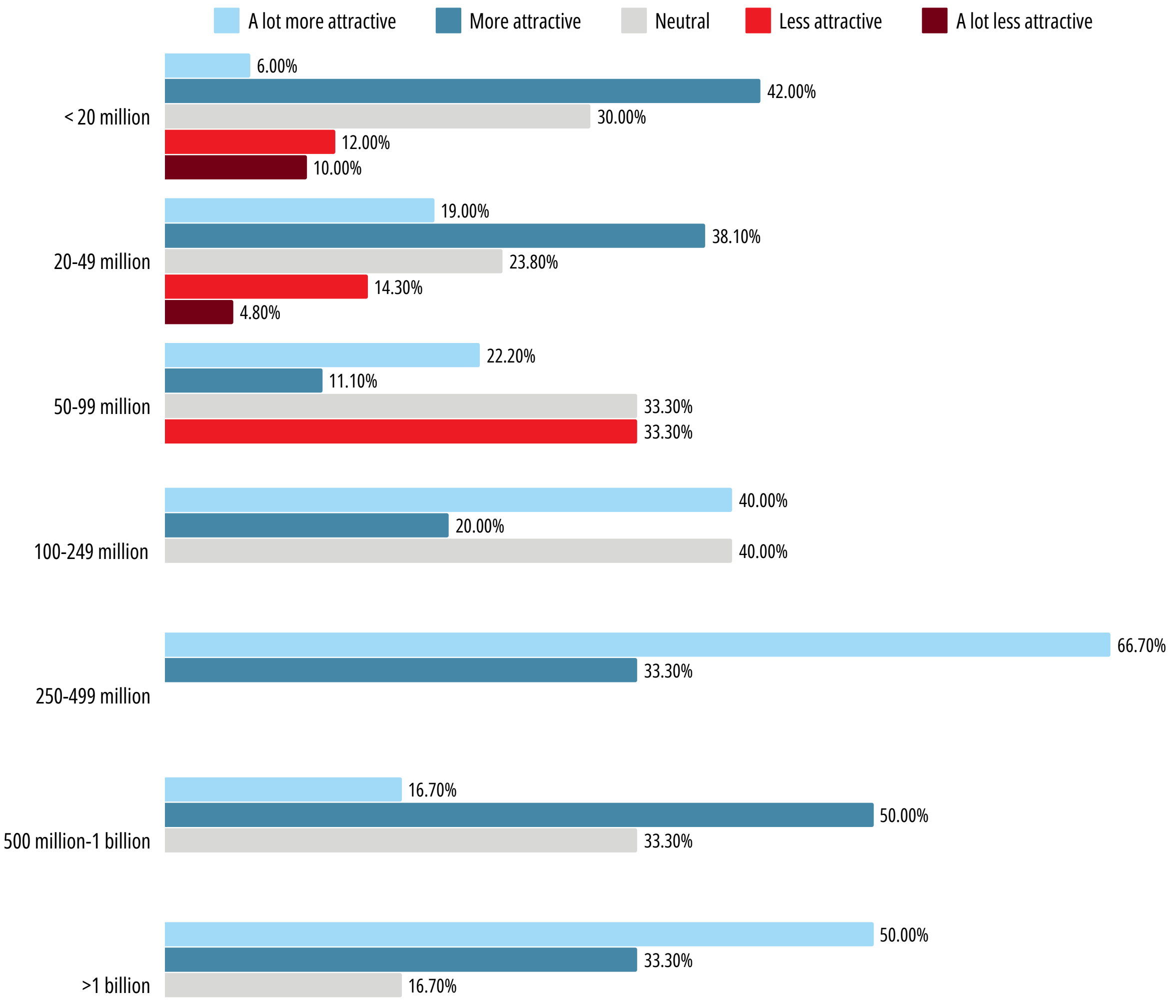


Firms across revenue segments are looking to private equity as a strategic tool for reshaping their firm. With rising competition and regulatory demands, **private equity-backed transformations allow these firms to invest in long-term growth strategies**, such as expanding into new markets or overhauling internal processes.

Private equity investment has been crucial in supporting mid-market firm DJH's rapid expansion. CEO Scott Heath notes, that between 2019 and 2022, the firm quadrupled its turnover from £4 million to £16 million. This growth trajectory has continued post-private equity investment.

For DJH, private equity backing is not just about financial support, but about creating opportunities for the firm and its people. Heath explains, "If we stop growing, if we stop developing and adding new service lines or building the business, it creates glass ceilings for people." The continued growth, supported by private equity investment, "creates opportunities for promotions, for new departments, and for development."

Fig 3: How has your perception of the attractiveness of private equity investment as a route to future growth/transformation changed over the past 2 years?



"The growing influence of private equity in the UK accounting sector is a highly positive development, especially as it plays a crucial role in ensuring the continuity of local accountancy firms that serve small and medium-sized businesses. Private equity provides the capital that allows these firms to invest in technology, expand their services, and ultimately enhance their offerings to local businesses. For many firms, securing PE investment is not just about growth—it's about survival."

Derry Crowley, CEO, Xeinadin

The appeal of private equity ties into large firms' ability to manage the risks associated with significant structural changes, leveraging outside capital to innovate without straining internal resources.

50%
of large firms expect a moderate increase in M&A and private equity activity.

Meanwhile, **33.3% anticipate a significant increase**, reflecting a clear confidence in the strategic value of these activities for continued growth and transformation. Large firms display a unified belief that M&A and private equity will play an important role in their future strategies.

At the same time, small firms show a more balanced perspective on M&A and private equity activity. Approximately **50% anticipate M&A activity to increase somewhat**, suggesting cautious optimism about growth opportunities through acquisitions or external investment.

However, 29.6% of small and medium firms remain neutral, indicating a degree of uncertainty about engaging in these activities, while 26% expect a significant increase, reflecting strong confidence in leveraging external capital for growth. **A smaller group (4.2%) foresee a decrease in such activity**, potentially due to concerns over market conditions or the risks associated with scaling through acquisitions.

For many small firms, maintaining independence and a close connection with their client base is a priority, making them less inclined to pursue rapid expansion or outside investment.

Instead, they may focus on organic growth or forming strategic partnerships that allow them to scale without losing control.

"I think the profession is at an inflection point, particularly with private equity entering the profession. Firms do generally need to increase their profile, and the easiest way of doing that is via their branding... having that visual identity is critical now for any accounting business."

Subarna Banerjee
UK Managing Partner, UHY

CASE STUDY: PRIVATE EQUITY'S ROLE IN ACCOUNTANCY

There can be no doubt that private equity is playing an increasingly pivotal role in reshaping the UK accounting landscape.

The partnership with Horizon Capital has been a game-changer for mid-market firm Dains, providing the financial backing and strategic insight needed to fuel its growth.

According to CEO Richard McNeilly, the **private equity investment has brought much-needed confidence and resources to execute their ambitious plans.**

Horizon Capital has not only provided financial clout but also valuable guidance on integrating businesses successfully.

This has enabled Dains to maintain its rigorous approach to cultural fit and operational integration, ensuring that new acquisitions enhance rather than dilute the firm’s strengths.

For many firms, private equity investment often brings access to new technologies, managerial expertise, and opportunities to expand globally. As private equity becomes a more attractive option, firms must carefully balance the potential for innovation with the need to maintain core business values and client relationships.

“The most important thing that we’ve had from private equity is the confidence to complete transactions. Horizon has been a brilliant partner… helped us to understand how you truly integrate businesses successfully.”

Richard McNeilly, CEO
Dains

KEY DATA POINTS:

Small firms (<£50 million): Talent acquisition (64.8%) and cyber security risks (47.9%) are the biggest challenges faced by these firms. This is followed by keeping pace with regulatory change (43.7%).

Medium firms (£50-500 million): Similar to small firms, talent acquisition remains a top concern (82.4%). However, the pace of technology adaptation and adoption (52.9%) is a bigger challenge for medium firms. This is followed by cyber security concerns (47.1%).

Large firms (>£500 million): Client pressure on pricing and a desire for alternative fee arrangements (75%) emerged as the top challenge for large firms. This was followed by talent acquisition (58.3%) and hybrid work adaptation (50%).

03 Industry Challenges

As the accounting sector continues to adapt to rapid technological change, economic uncertainty, and evolving client demands, firms face a diverse set of challenges. These challenges vary significantly based on the size and revenue of the firm, with small firms grappling with operational concerns, while large firms focus on strategic market positioning and competition.

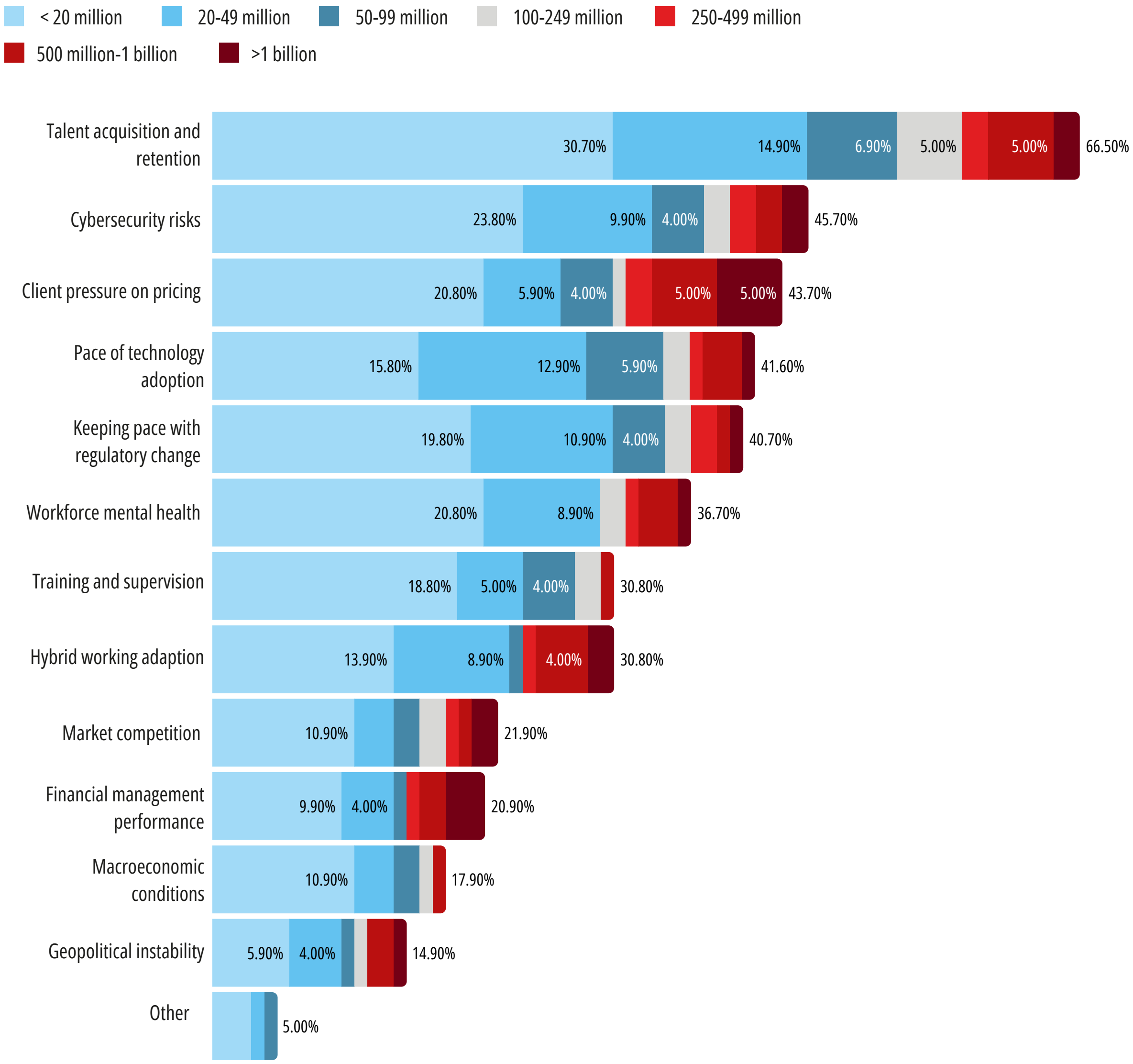
Smaller firms, which often have fewer resources to dedicate to robust digital infrastructure, are starting to feel the pressure of rising cybersecurity risks.

48%

of small firms mark cybersecurity as a top concern.

For many of these firms, the rapid pace of technological adoption may be outpacing their ability to secure their systems, leading to heightened risk perceptions.

Fig 4: Which of the following challenges is your firm currently facing? (Select all that apply).



Medium firms, on the other hand, are caught in the middle ground of maintaining operational efficiency while competing for top talent. The fact that **82.4% of these firms are struggling with talent acquisition and retention** underscores a broader industry trend. For these firms, the ability to attract and retain skilled employees is becoming crucial, especially as they expand into new service lines or markets.

For large firms, market competition is an increasingly significant challenge, with 33.3% citing it as a top concern. These firms are likely to contend with both domestic competition and global market forces, particularly as many are looking to expand internationally. Their established digital infrastructure means **cybersecurity concerns are lower but the need to stay competitive in a fast-changing industry requires constant innovation.**

More importantly, **75% of large firms are facing pressure from their clients around their fees.** Clients are becoming more cost-sensitive, especially in economically challenging times, and are slowly shifting to models that offer predictable costs over traditional hourly billing. **Additionally, there's a growing focus on the value delivered, prompting clients to seek pricing models that align with their expectations.**

KEY DATA POINTS:

Enhancing social responsibility is prioritised by 87.5% of large firms, 83.3% of medium firms, and 66.1% of small firms.

Reducing environmental impact is a focus for 87.5% of large firms, 91.7% of medium firms, and 61.3% of small firms.

Attracting talent remains significant for 12.5% of large firms, 91.7% of medium firms, and 56.5% of small firms.

Strengthening governance and ethics is highlighted by 50% of large firms, 58.3% of medium firms, and 35.5% of small firms.

Seeking B-Corp accreditation is only being pursued by a small percentage of firms (7.2%), with interest primarily among smaller firms.

04 ESG Objectives

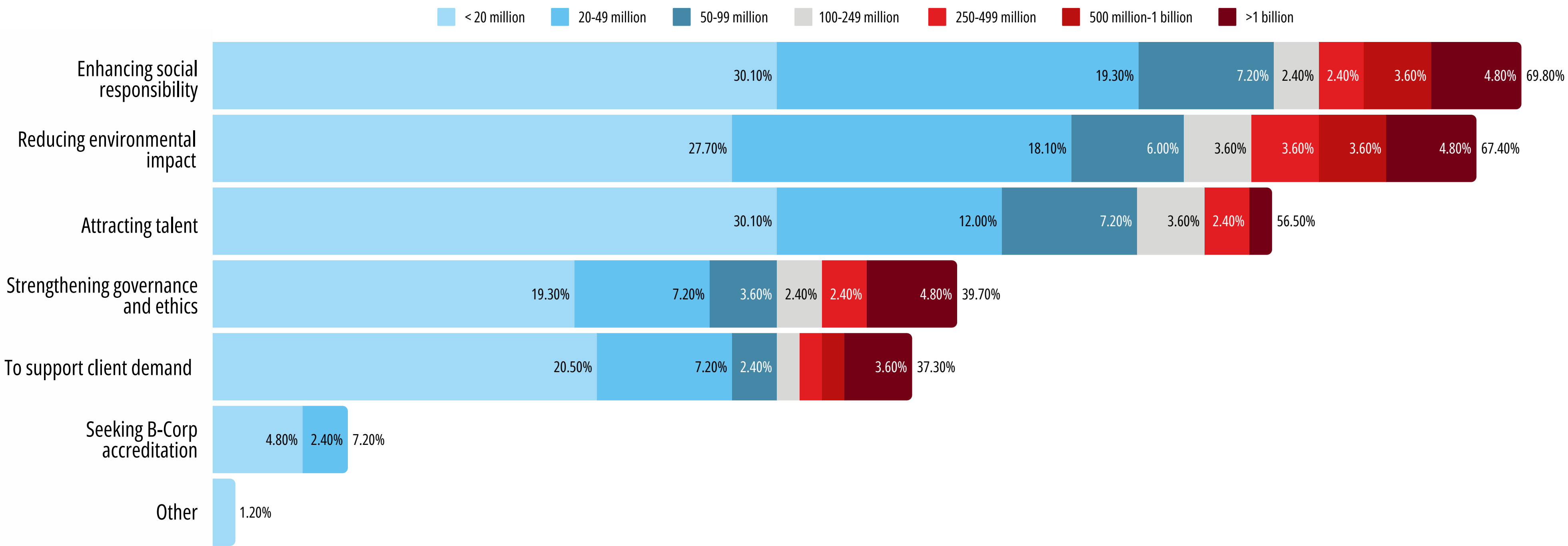
ESG considerations are now central to the strategy of many accounting firms. This has been driven by stakeholder demands, regulatory requirements, and the increasing need for sustainability. Firms of all sizes are incorporating ESG into their operations, though their priorities differ based on revenue and available resources.

The prominence of ESG reflects the growing awareness of the importance of sustainability and responsible governance in the accountancy sector.

However, the specific focus of ESG initiatives differs significantly between small, medium and large firms.

Small firms emphasise enhancing social responsibility and reducing environmental impact, with 66.1% and 61.3% focusing on these areas, respectively. **Their commitment to ESG is likely driven by the need to remain competitive by appealing to clients who prioritise sustainability**. These firms may view ESG as a differentiator, especially as clients and partners increasingly seek advisors with strong ESG credentials.

Fig 5: What are your firm's defined ESG (Environmental, Social, Governance) objectives for 2024?



For a small percentage of firms (7.2%), B-Corp status has been the route to ensuring sustainability is embedded within their entire strategy.

BKL, a mid-market accounting firm, achieved B-Corp accreditation back in 2022 as a result of a partner brainstorm during the pandemic. "At the end of the first lockdown, myself and three of the firm's partners, being the executive board, got together and asked ourselves 'if there were no limitations, what would we want to be in five years' time', and put all of our crazy ideas on a piece of paper," says Mfanwy Neville, partner at BKL.

For medium firms, ESG initiatives also play a crucial role in talent acquisition. This is particularly relevant as these firms expand their operations and need to build a skilled workforce that aligns with their long-term goals.

Additionally, **61.3% of medium firms are also focusing on strengthening governance and ethics**, reflecting their growing scale and the need to ensure compliance as they expand.

Mfanwy Neville, partner at BKL

"One of the things that came out was around being a 'good' business with a capital 'G', and questioning what that really meant and how we could develop what we'd already begun to build. That's where the B Corp idea came from. The plan was to use B Corp as a framework, because it would give us a structure to say what's good and what's not – a framework where we could measure ourselves against criteria as we learned more about sustainability as a core concept."

The percentage of firms across revenue segments pursuing B-Corp accreditation.

< £20 million	£20-49 million
8.9%	11.8%

Large firms, with more complex operations, place significant emphasis on governance and social responsibility, with 87.5% focusing on enhancing social responsibility and 12.5% on attracting talent.

Additionally, 87.5% of **large firms are focused on reducing their environmental impact,** which could indicate that some have already embedded sustainability into their broader operational strategies.

These firms face higher levels of scrutiny from regulators, investors, and clients, necessitating a comprehensive approach to ESG.

DRIVERS OF ESG PRIORITISATION:

1. **Stakeholder Expectations:** Clients, investors, and employees increasingly expect firms to integrate ESG into their core operations.
2. **Regulatory Pressure:** The regulatory landscape surrounding ESG reporting is tightening, prompting firms—especially larger ones—to invest in governance and compliance.
3. **Market Differentiation:** ESG credentials offer a competitive advantage, particularly in attracting younger talent and socially conscious clients.

KEY DATA POINTS:

Small firms (<£50 million): Key retention strategies deployed by small firms include flexible hours (77.8%), remote working (73%) and career development programs (68.3%). Less onus is placed on share incentive schemes and performance bonuses.

Medium firms (£50-500 million): Flexible hours (91.7%), career development programs (91.7%) and remote working (75%) are prioritised by medium firms as key retention strategies.

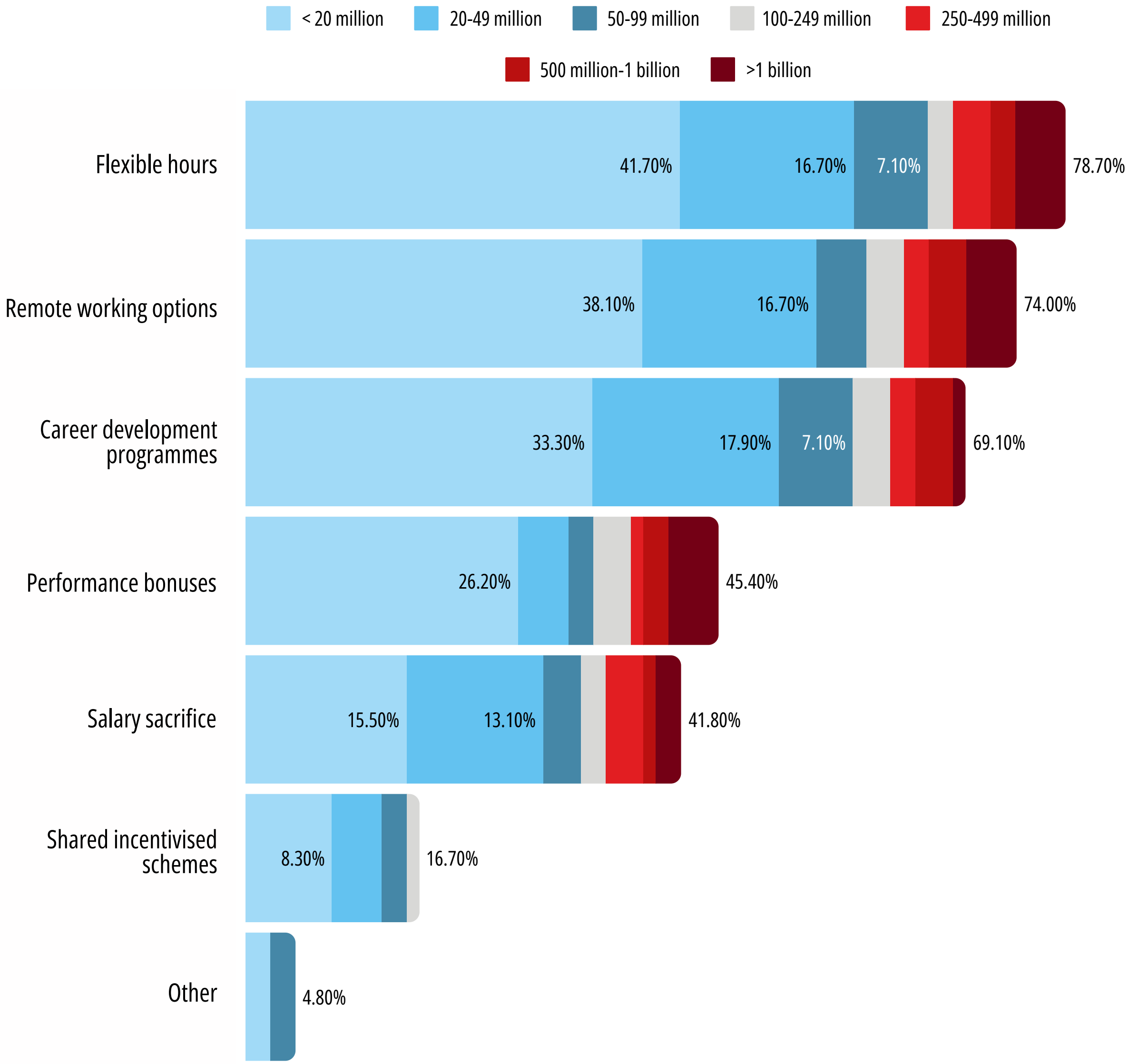
Large firms (>£500 million): Remote working options (75%), flexible hours (75%) and performance bonuses (75%) are being employed by large firms to manage and retain talent.

05 Talent Management and Retention Strategies

As the demand for top talent intensifies, firms across all revenue segments are increasingly focusing on strategies to attract, manage, and retain skilled professionals. Flexible working arrangements, career development opportunities, and performance-based incentives are becoming key components of the talent management strategy for firms of all sizes.

The data highlights the importance of **flexible working as a dominant strategy across all firm sizes, with small firms leading the way**. 77.8% of small firms offer flexible hours and 73% offer remote working options, suggesting that these firms leverage workplace flexibility to compete with larger organisations for talent. This emphasis on flexibility may be **driven by the need to attract a more dynamic workforce while managing costs effectively.**

Fig 6: What strategies is your firm using to manage and retain talent? (Select all that apply).



In contrast, medium firms are more focused on career development programs, with 91.7% offering comprehensive development opportunities for their employees. These firms appear to **prioritise long-term career growth for their workforce, reflecting their ambition to build a loyal and skilled team capable of supporting their expansion goals**. At the same time, 91.7% of medium firms also provide flexible working options.

Large firms place a greater emphasis on financial incentives such as performance bonuses and salary sacrifice schemes to attract and retain top talent.

With 75% of large firms offering performance-based incentives, and 37.5% using salary sacrifice schemes, these firms are able to leverage their financial resources to create competitive compensation packages. **This focus on financial incentives may reflect the need to maintain a competitive edge in the talent market while ensuring employee loyalty** in a highly competitive and globalised environment.

The data reveals that while **all firms recognise the importance of talent retention, their strategies vary** based on size and available resources. While small firms focus on flexibility as a key retention strategy, medium firms prioritise long-term career development, investing in comprehensive development programs to build a loyal and skilled workforce. Large firms rely more heavily on financial incentives such as performance bonuses and salary sacrifice schemes to attract and retain top talent.

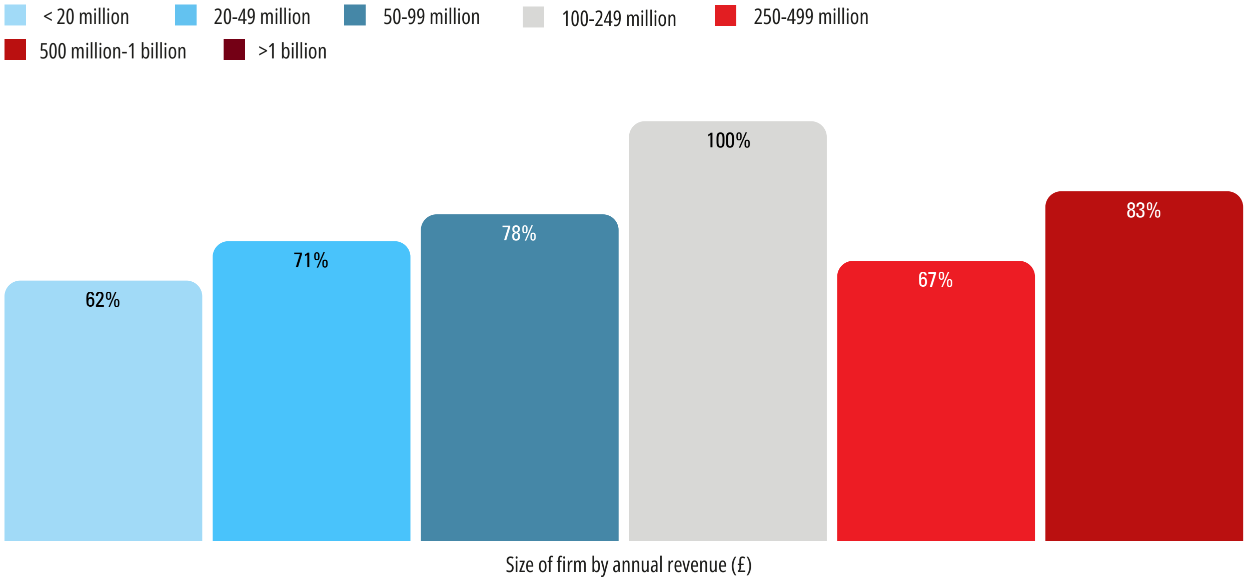
"I set out a manifesto to make sure we became a people-first business. We did a lot of work around our culture, our values, and our purpose... We've got a very low people attrition rate. We also resigned from clients where we didn't think they were living our values. That's done remarkable things for our people - it shows how important they are to us and we're not prepared to put up with clients that don't treat our people with respect."

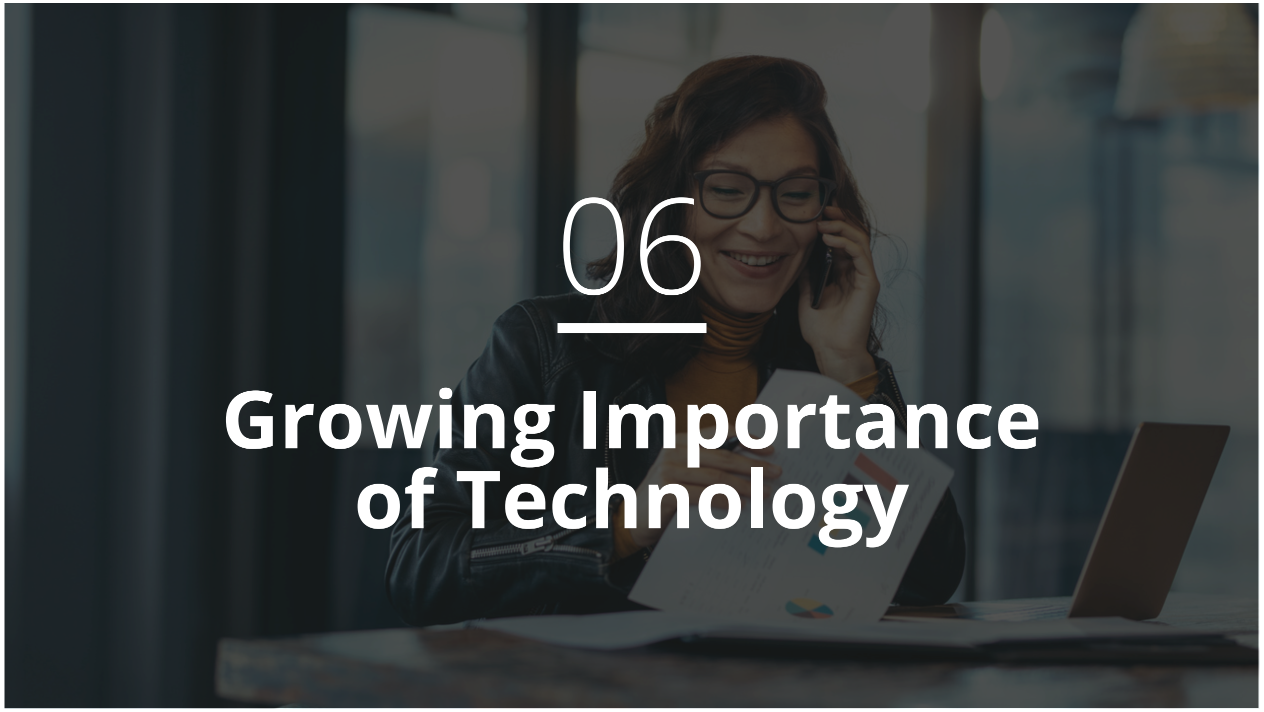
Subarna Banerjee, UHY

"Learning is one of the largest investments in our firm and creating our learning as well. We're looking at modern techniques that can be introduced, which includes on-demand learning accessible at your fingertips within the workflow that our people complete in our technology."

Dilek Çilingir, EY Global Forensic & Integrity Services Leader

Figure 7: Percentage of firms that identified talent retention as a challenge





06

Growing Importance of Technology

KEY DATA POINTS:

Small firms (<£50 million): 22% report a significant increase in technology spending compared to previous years. A further 20% of these firms are already using AI within their processes.

Medium firms (£50-500 million): 58.3% have increased their technology spend somewhat, reflecting a measured but consistent approach to technological adaptation. The same percentage of firms are also already using AI within their processes.

Large firms (>£500 million): 50% of large firms report a slight increase in their technology spending, suggesting that many have already made substantial investments in prior years and are now focusing on maintaining or optimising existing systems. Unsurprisingly, 87.5% of these firms are already using AI.

The increasing importance of technology in the accounting sector has led firms to reassess their technology investment strategies. Whether it's cloud accounting, automation, or advanced analytics, firms across all revenue segments are focusing on adapting to technological advancements to remain competitive. However, the extent of their technology investment varies based on firm size and operational capacity.

The data reveals that **large firms have already made aggressive technology investments.** This suggests that large firms, which often have the resources and strategic need to stay competitive at scale, are seizing opportunities to implement new technologies that enhance efficiency, maintain their competitive edge, and optimise complex operations.

Gravita, one of the market's fastest growing challenger firms, has strategically adopted technology to enhance both client experience and operational effectiveness. CEO Caroline Plumb outlines the firm's technology strategy as multi-layered, aimed at covering all aspects of their operations.

This comprehensive approach allows Gravita to be at the forefront of technological integration in the accounting industry. For instance, Plumb mentions the adoption of cutting-edge software such as Data Snipper and Inflow to streamline and improve the accuracy of auditing and tax services.

"We're starting to choose vendors who we know themselves are future-proofed from a technology perspective," Plumb says, indicating a focus on sustainable technology partnerships.

Caroline Plumb, CEO Gravita

"We think of our strategy as four layers, starting with an infrastructure layer for core stability, followed by horizontal layers like practice management and billing, then vertical stacks for specific client services, and finally an interaction layer that enhances client engagement."

Fig 8: How has your firm's spend on technology changed now compared to its investment spend in 2023?

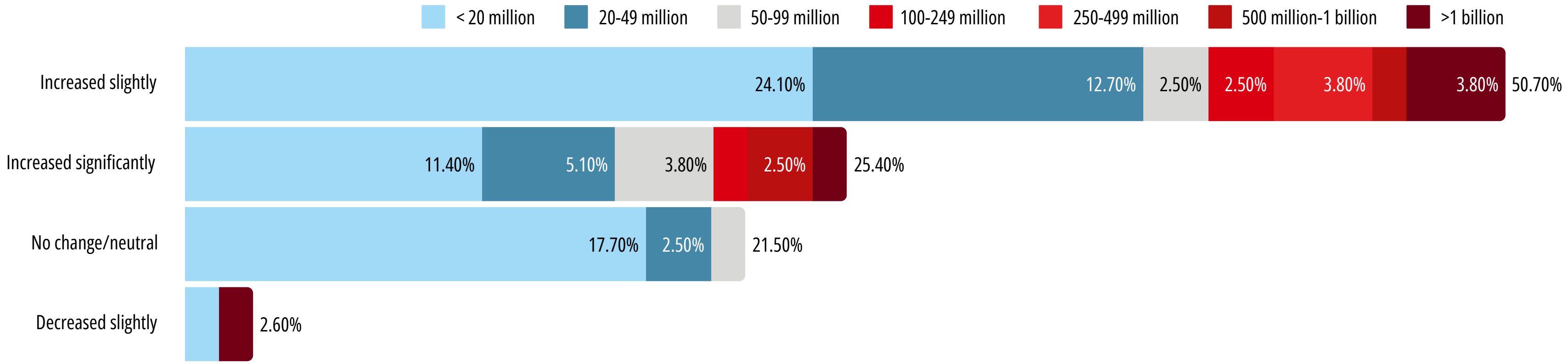
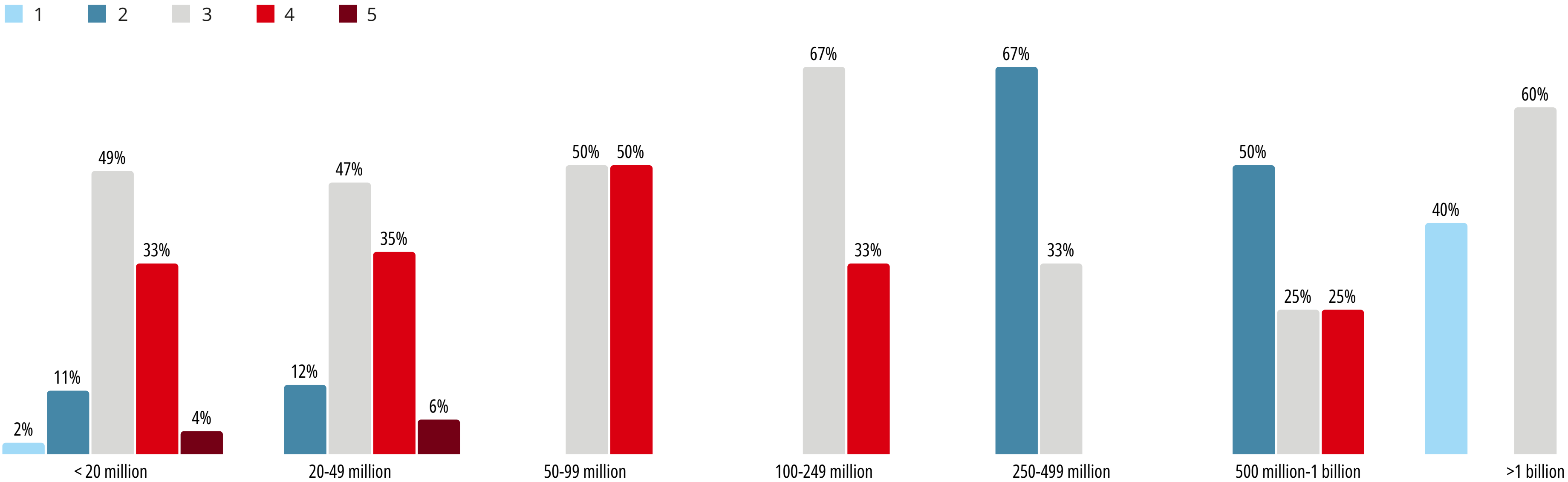


Fig 9: How well is your firm adapting to technological advancements in the sector? (1 being not very well, and 5 being very well).



For medium firms, 58.3% report a somewhat increased spend on technology, reflecting a steady focus on digital transformation. **Medium firms may be balancing the need to scale with the cost implications of substantial technology upgrades**, which is why their investment is more incremental compared to small firms. These firms are likely to enhance their existing infrastructure to support growth without overcommitting to extensive new investments.

Mid-market firm **Dains has made significant strides in leveraging technology** to streamline its operations and enhance client services. The firm's ongoing digitisation efforts are aimed at ensuring all clients have access to real-time digital information.

The firm's technology strategy includes the use of advanced workflows and regular check-ins to improve service delivery.

Dains has also embraced automation to handle routine tasks, allowing their team to focus on providing higher-value advisory services. This approach not only enhances operational efficiency but also positions the firm to better meet the evolving needs of its clients.

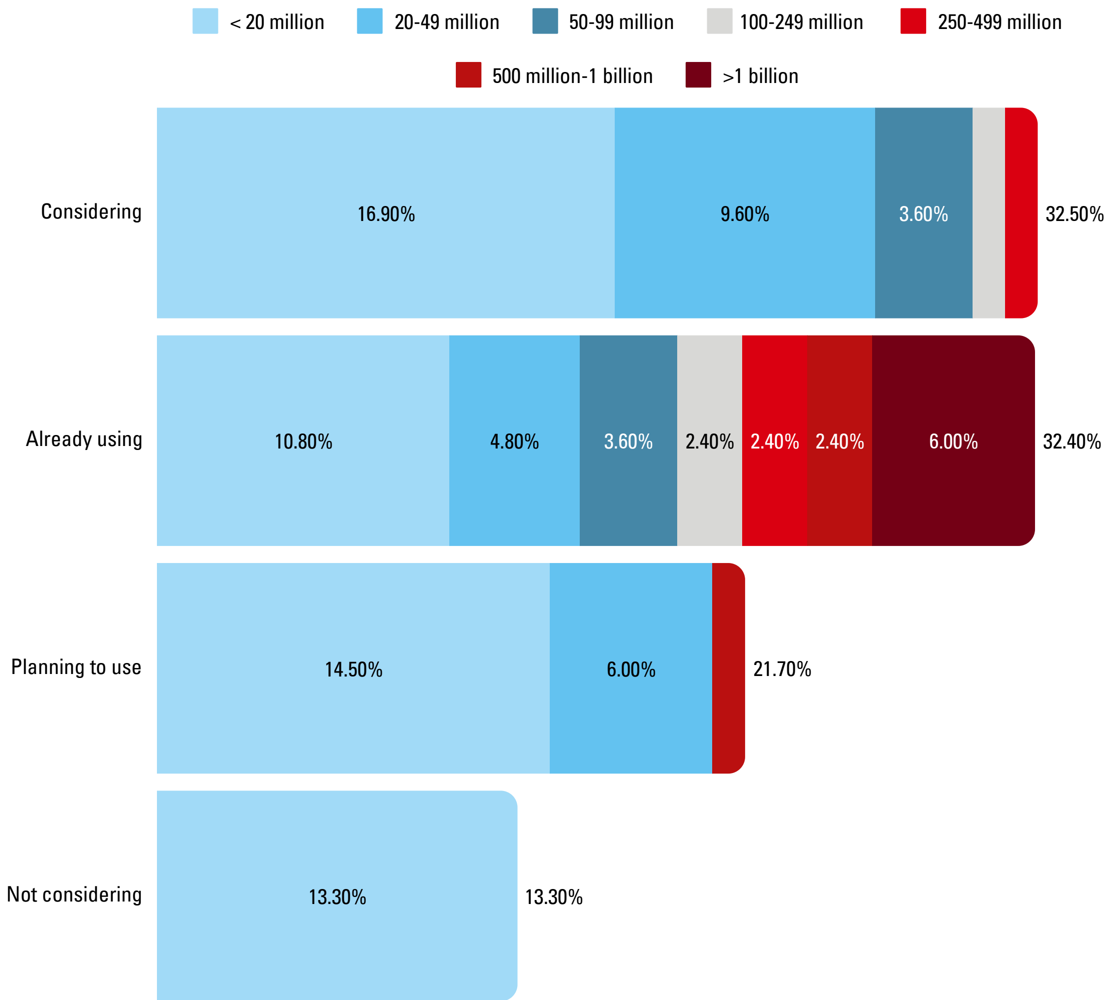
Small firms report a more **cautiously proactive** approach to technology investment.

These firms focus on incremental increases rather than substantial, high-risk spending. They appear to prioritise technology that enhances efficiency and supports growth, allowing them to stay competitive without overextending their resources. This approach reflects a balance between the need to innovate and the financial constraints typical of smaller firms.

The difference in technology investment across firm sizes paints a clear picture of where each group stands in its digital transformation journey. **Small firms are playing catch-up**, making investments to keep pace with technological advancements.

Medium firms are steadily increasing their investment, carefully balancing growth with cost. **Large firms, having already made significant investments, are now focused on maintaining and optimising their systems** to stay ahead in a competitive market.

Fig 10: Is your firm currently using or planning to use artificial intelligence in its accounting processes?



IS AI GAINING TRACTION?

Many firms are only at the beginning of their AI journeys – Gravita among them, having recently acquired a number of co-pilot licenses to test across their departments. While their CEO had opted for a more informal approach – asking for volunteers to test throughout the course of a few weeks – a more formal feedback channel is being set up with a firm commitment to use the tool a certain number of times within the pilot period.

"We're looking for volunteers to spend 20 hours a month using them for the next three months, and we don't mind what you do with it because it's gonna be an input test," Plumb explains. This initiative reflects her belief in hands-on experimentation and practical application as a way to harness technology effectively.

The firm's approach to AI is not just about enhancing efficiency but also about embedding the technology deeply into the fabric of their service delivery. Plumb is particularly interested in how AI can transform traditional processes, such as audit and financial analysis, to make them more efficient and accurate.

"We think it's going to save a huge amount of time in some areas following testing," she states, highlighting the expected impact on operational efficiencies.

Moreover, Gravita is looking at how AI can improve client interactions.

Plumb discussed using AI to automate responses to common inquiries, which could significantly enhance the client service experience. "We've picked people across the whole business, across all service lines and all functions to participate in the pilot. We'll let you know in three months how it goes," she says.

Plumb also highlighted the firm's focus on ensuring their workforce is equipped to leverage AI effectively. Training initiatives have been implemented to enhance staff competence in utilising these new technologies, ensuring that they are not only users but also interpreters of AI-generated insights.

"Training our team to work with AI is essential for maximising its benefits."

Caroline Plumb, CEO
Gravita

Unsurprisingly, the Big Four are blazing a trail when it comes to AI. Earlier this year, KPMG International announced the integration of generative AI into its global smart audit platform, KPMG Clara. The initiative will impact 90,000 auditors worldwide, aiming to enhance audit quality and efficiency across the full audit process.

"With seamless access to trusted generative AI capabilities within our audit workflow, our auditors will be empowered to deliver quality audits and focus more time on areas of highest risk," says Larry Bradley, Global Head of Audit at KPMG International.

"KPMG Clara AI can not only free up resources to spend more time on the areas of highest risk, but can directly help our teams execute more effectively as we carry out our responsibilities to protect the capital markets."

EY has also implemented AI in its audit processes, leading to the detection of fraudulent activities. Out of the first 10 companies evaluated by this new system, suspicious activities were identified in two, which were later confirmed as frauds by the clients.

While EY declined to reveal the details of its software or the nature of the frauds it had discovered, the firm said the results suggested the technology had "legs" for auditing.

"With seamless access to trusted generative AI capabilities within our audit workflow, our auditors will be empowered to deliver quality audits and focus more time on areas of highest risk."

Larry Bradley,
Global Head of Audit
at KPMG International

KEY DATA POINTS:

Small firms (<£50 million): Macroeconomic conditions (19.7%) and geopolitical instability (14.1%) appear to impact small firms less so than medium and large firms. However, 38% do report pressure from clients for alternative fee arrangements and pricing.

Medium firms (£50-500 million): Client pressure is growing among medium firms (41.2%) while macroeconomic conditions (17.6%) and geopolitical instability (11.8%) are not yet significant challenges.

Large firms (>£500 million): Client pressure on pricing and a desire for alternative fees is highest among large firms (75%). Surprisingly, macroeconomic conditions (8.3%) appear less of a concern for large firms than their smaller counterparts (19.7%).

07 Macroeconomic Impact on Strategy

Macroeconomic conditions—such as inflation, interest rates, and geopolitical instability—are increasingly shaping strategies. **While large firms appear more resilient** to these challenges due to their scale and resources, **small and medium firms are feeling the effects more acutely.**

38% of small firms report that client pressure on pricing—likely influenced by inflation—is creating significant cost pressures. These economic pressures may result in tighter margins, prompting small firms to consider delaying expansion plans or adopting more cost-effective operational strategies.

Additionally, **19.7% of small firms cite macroeconomic conditions as a challenge**, suggesting that some are already adjusting their growth plans in response to economic uncertainties.

For medium firms, economic pressures related to client pricing and financial management are more significant concerns. On average, 41.2% of medium firms report client pricing pressure as a challenge, suggesting that market conditions, possibly influenced by interest rate volatility, are impacting their pricing models and profitability.

Fig 11: Which of the following challenges is your firm currently facing? (Select all that apply).

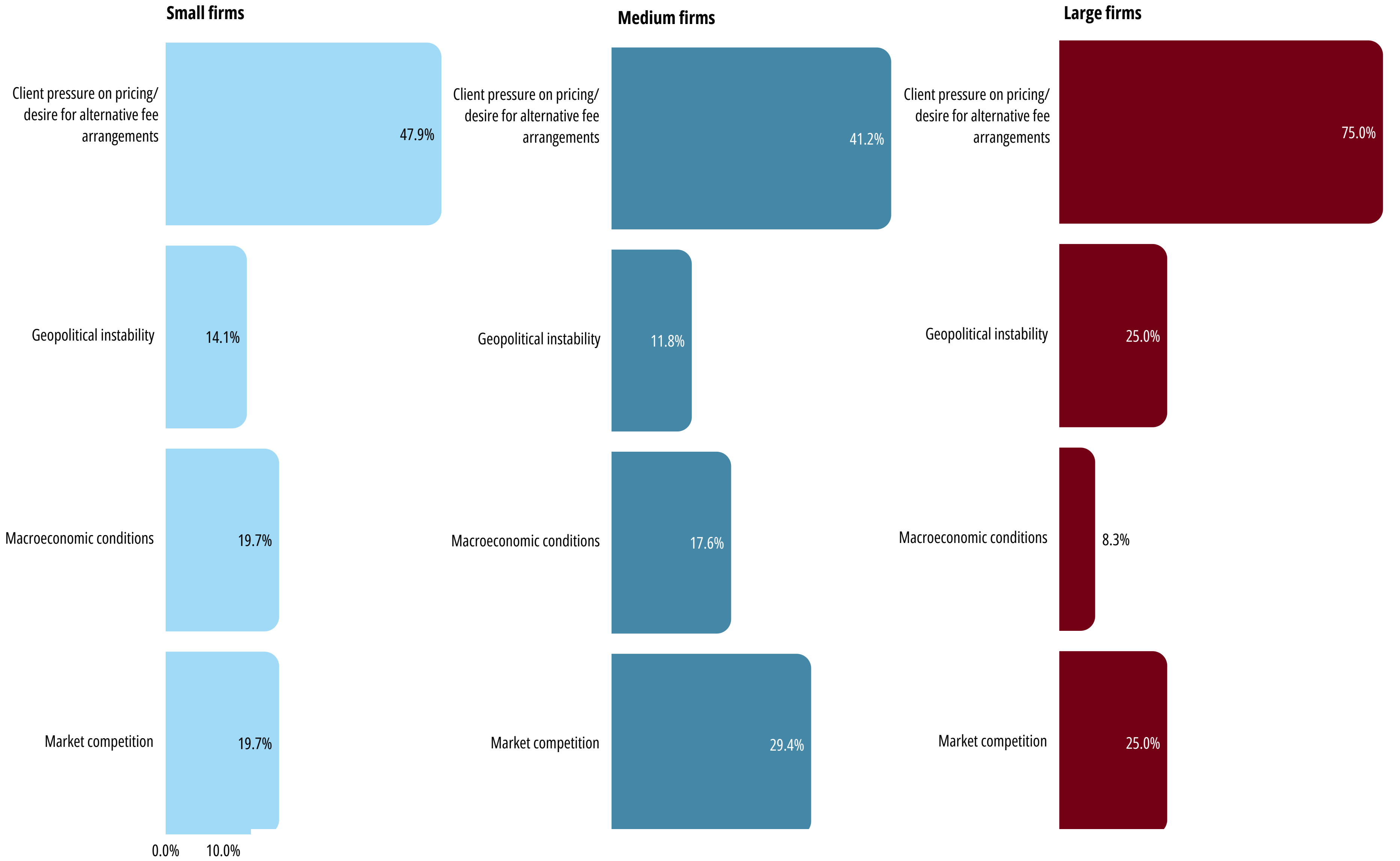
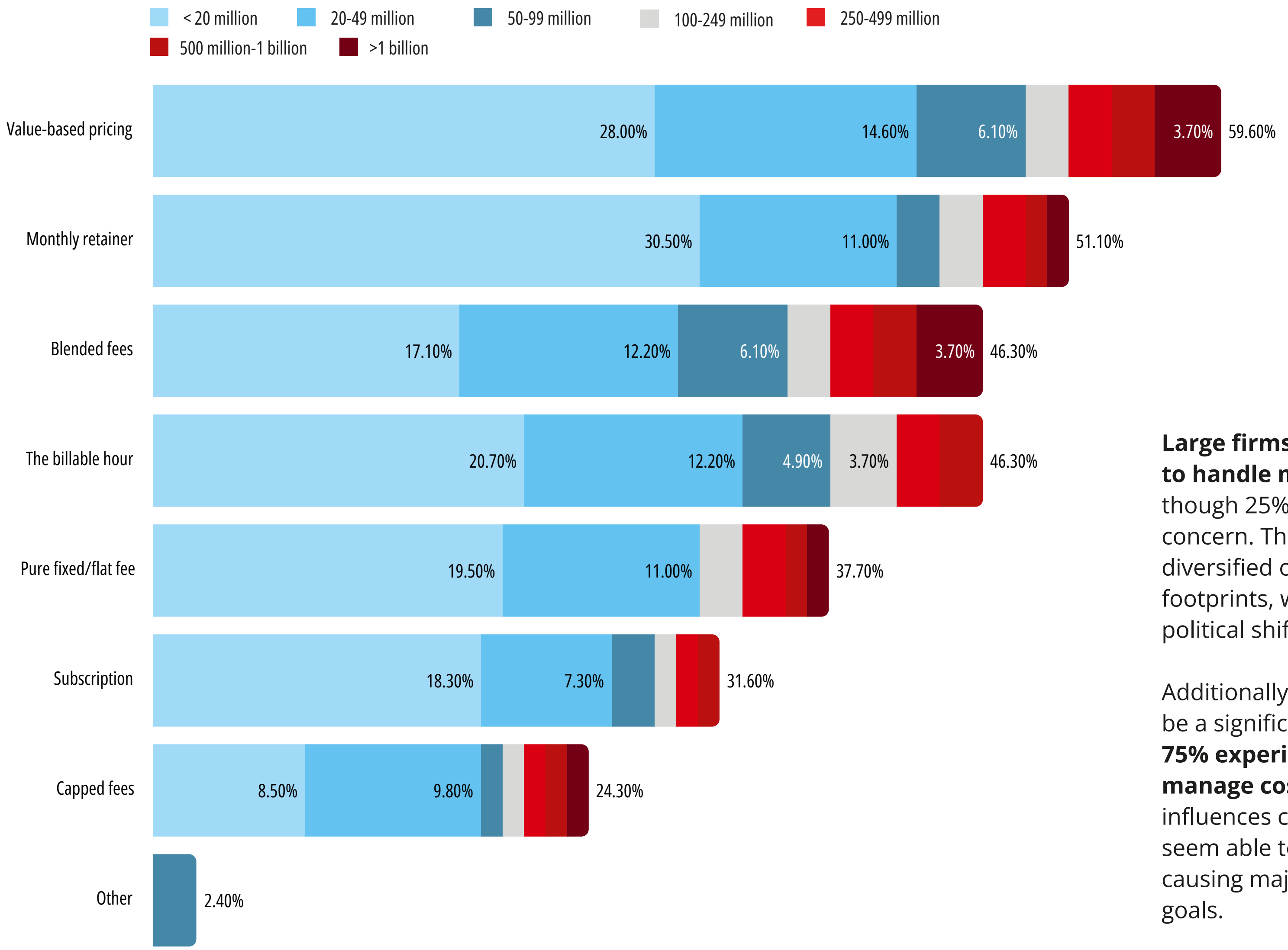


Fig 12: Which fee model would you consider over the next five years? (Select all that apply).



Large firms are generally better equipped to handle macroeconomic challenges, though 25% cite geopolitical instability as a concern. These firms often have more diversified operations and larger global footprints, which expose them to global political shifts and related risks.

Additionally, client pricing pressure appears to be a significant factor, with **an average of 75% experiencing pressure from clients to manage costs effectively.** While inflation influences cost structures, many large firms seem able to manage these pressures without causing major disruptions to their strategic goals.

KEY DATA POINTS:

Small firms (<£50 million): 43.7% cite keeping pace with regulatory change as one of their top challenges.

Medium firms (£50-500 million): 47.1% report that the increasing demands of regulatory compliance are a challenge.

Large firms (>£500 million): With only 16.7% citing it as a top challenge, large firms appear to have established frameworks to manage regulatory demands effectively.

08 Regulatory Compliance

As regulations in the accounting sector become increasingly complex, firms of all sizes are ramping up their compliance and risk management efforts. The focus of such efforts varies.

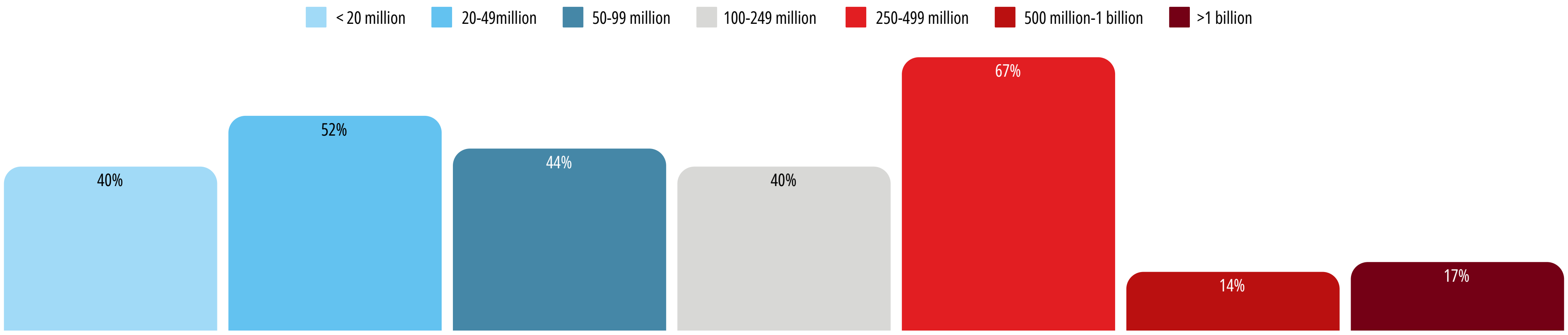
Regulatory compliance is a notable challenge for 46% of small firms. For these firms, the burden of keeping up with regulatory requirements can be substantial, as they often operate with limited resources.

Small firms may lack the dedicated compliance teams or robust systems that large firms have, making regulatory changes more challenging to manage. As a result, these firms may face added pressure to allocate resources toward compliance, potentially diverting funds away from growth initiatives.

While small firms are concentrating on keeping pace with ever-changing regulatory frameworks, larger firms are investing heavily in governance structures.

Medium firms are increasingly mindful of compliance due to their expanding operations and more complex organisational structures.

Fig 13: The percentage of firms citing 'keeping pace with regulatory changes' as a concern



For medium firms, 47.1% cite regulatory compliance as a challenge, indicating a similar but slightly lower level of concern compared to small firms.

As these firms grow, they often encounter more regulatory scrutiny and additional compliance obligations, especially if they operate in multiple regions or industries.

Regulatory compliance concerns are less pronounced among large firms, with an average of 15.5% citing it as a primary challenge.

Large firms typically have more resources and established compliance infrastructures, allowing them to manage regulatory demands more effectively.

With dedicated compliance teams and more advanced systems, these firms are often better positioned to adapt to new regulations with minimal operational disruption.

Additionally, large firms may benefit from economies of scale in managing compliance costs, as they can spread these expenses over broader operations.

The data shows a clear trend: **the smaller the firm, the greater the challenge posed by regulatory compliance.** Small firms struggle with limited resources, making compliance a more burdensome aspect of their operations.

Medium firms are also significantly impacted, as they must balance growth with compliance obligations, often increasing in complexity as they expand. In contrast, large firms, with their more robust infrastructures, can handle regulatory demands with relative ease, making compliance a less pressing concern.

09 In Pursuit of Future Growth

KEY DATA POINTS:

Small firms: Over half of small firms (51.9%) are not focusing on international expansion between now and 2029. Those that are, are focused on the UK (37.1%) and Europe (22.6%). 10% of small firms said entering new markets was a top priority.

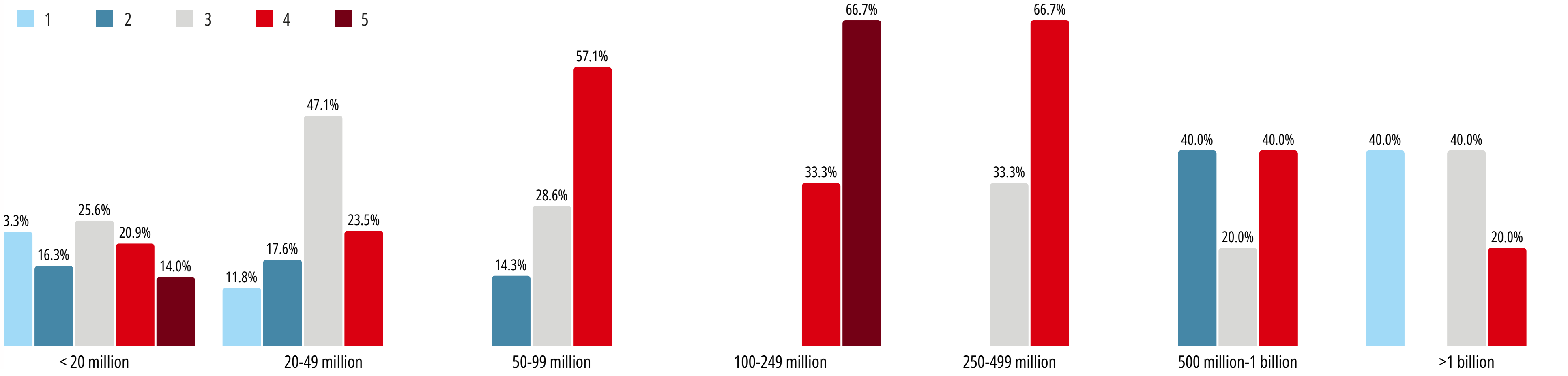
Medium firms: Just shy of 40% of medium firms are not considering international expansion in the next five years. Those that are, are mostly (61.5%) focusing on domestic (UK-based) expansion. Just over 15% of firms said entering new markets was a top priority.

Large firms (>£500 million): There appears to be a significant interest in Europe from large firms with 66.7% looking to grow in the region in the next five years. The UK (22.6%), Ireland (22.6%), North America (22.6%) and the Middle East (22.6%) are also being targeted. However, no large firms said entering new markets was their top priority.

As firms navigate macroeconomic challenges, technological shifts, and regulatory complexities, their growth strategies are evolving to reflect these realities. The approach to growth varies significantly based on firm size, with **small firms focusing on organic growth and client acquisition, while medium and large firms look to mergers, acquisitions, and international expansion.**

For small firms, growth strategies are shaped by their limited resources and a need to focus on strengthening their foundation. These firms, especially those with revenue under £20 million, view M&A with cautious optimism (see Fig 1). While 14% of the smallest firms anticipate a significant uptick in acquisition activity, the majority are more conservative, with 44% expecting only a slight increase.

Fig 14: How high on your firm's priority list for the next five years is entering new markets? (1 not being a priority, and 5 being a top priority).



For many small firms, their strategic efforts are often directed at organic growth within their existing market. This is where they can build on their current strengths without overextending themselves.

When it comes to entering new markets, small firms display a mixed approach. Many are keeping international expansion on their radar, but it's not necessarily at the top of their list. **While 23.3% of firms with <£20 million revenue rank expansion as a low priority, 25.6% see it as moderately important,** and 14% consider it a top priority.

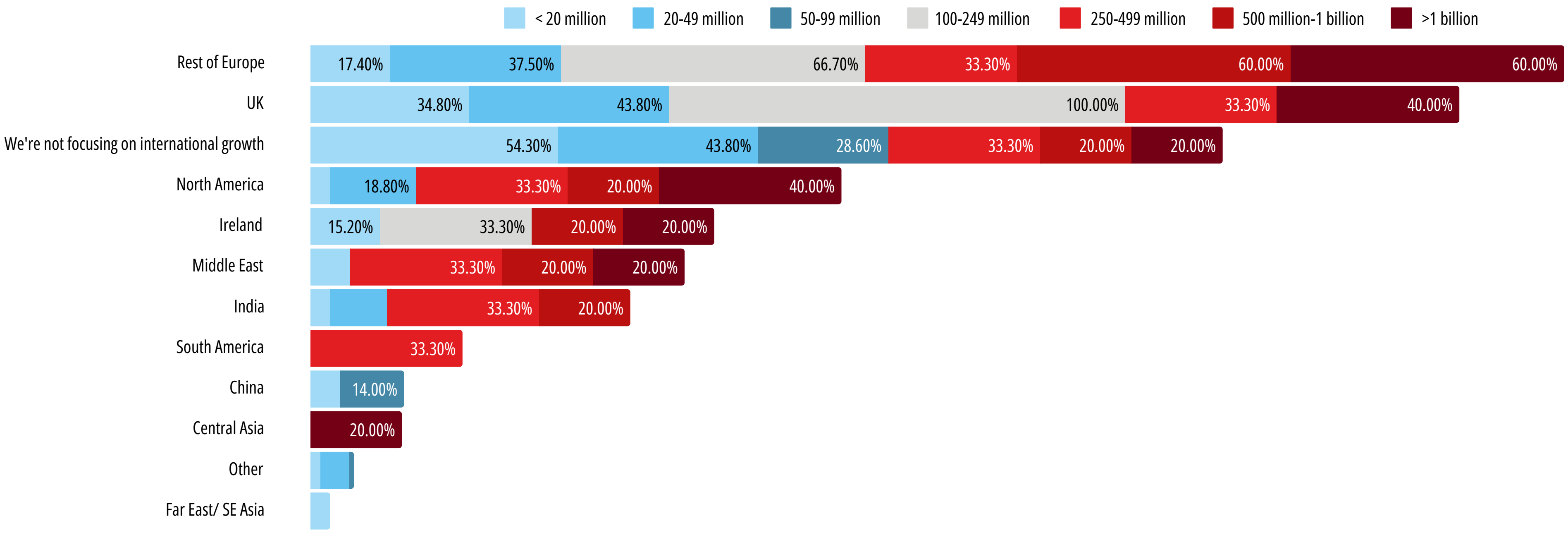
In contrast, medium firms' growth is a delicate balancing act. These firms often sit at a crossroads, large enough to consider ambitious growth strategies but still having to manage the constraints of scaling up. M&A holds a strong appeal. By acquiring complementary firms or absorbing competitors, medium firms can accelerate their growth trajectory, often without the need to build from scratch.

However, **medium firms are equally attentive to opportunities for international expansion.** For many of these firms, entering new markets is a priority.

Firms in the £50-99 million and £250-499 million segments show a strong commitment to exploring new territories, with 57.1% and 66.7% respectively ranking expansion as a high priority.

This dual focus on both M&A and market entry indicates that medium firms are building a growth strategy that's adaptable and multifaceted.

Fig 15: Which three markets is your firm focusing on for international growth over the next five years?



For the largest firms, growth strategies are bold, decisive, and often centred around acquisitions. These organisations are confident about the power of M&A to drive their growth.

Unlike small firms, large firms have the resources, infrastructure, and expertise needed to integrate acquisitions smoothly.

INTERNATIONAL EXPANSION

Small firms show limited interest in international growth, with over half opting not to prioritise expansion abroad. **For those considering new markets, the focus is mainly on accessible regions like the UK, Ireland, and Europe,** where entry barriers are lower.

Medium firms exhibit a stronger interest in Europe, and to a lesser extent, North America.

This reflects their moderate capacity to manage growth beyond domestic borders.

Large firms with extensive resources, adopt a more diversified approach. They prioritise the rest of Europe, North America, and the UK, leveraging their established infrastructure to pursue growth across multiple regions.

Conclusion

The **2024 Accountancy Sector Outlook Survey** provides a comprehensive overview of the challenges, opportunities, and strategic priorities of UK accounting firms across all revenue segments.

The key findings from the survey suggest that:

Small firms (<£50 million) are focusing on enhancing operational security, client acquisition, and flexible working arrangements to navigate economic and competitive pressures.

Medium firms (£50-500 million) are adopting a more proactive approach to growth and risk management, leveraging technology, talent retention strategies, and M&A opportunities to scale their firms.

Large firms (>£500 million) are focusing on international expansion, regulatory compliance, and technology investment to stay competitive in a global marketplace.

As the industry continues to evolve, firms that prioritise technology adoption, ESG initiatives, and talent management are likely to be better positioned for long-term growth.

The ability to adapt to regulatory changes, manage macroeconomic risks, and invest in strategic growth opportunities will be key differentiators for firms navigating an increasingly complex and competitive landscape.

"The UK accountancy sector has continued to demonstrate its resilience, with businesses confident in the market's outlook for 2025 and 2026. Despite this positive sentiment, some challenges remain. As firms look to seize opportunities to consolidate market share and diversify services through M&A, they face challenges posed by talent shortages and cyber-security. Meanwhile, managing the risks of regulatory change and economic uncertainty remain of significant priority. While the push for growth retains precedence, it is pleasing to see an increasing focus of ESG objectives, which we are confident will set the foundations for the continued success of the industry".

Stuart Tait
Head of Commercial Banking
HSBC UK

HSBC UK