

URL: <https://stvp.stanford.edu/blog/videos/deloitte-services-in-a-down-economy>

Consulting clients are down, but tax work is on the rise, and auditing services are just tailing off. Teresa Briggs, partner at Deloitte Silicon Valley, discusses how one of the largest names in finance is responding to the economic crisis of 2008/2009. Briggs also reports that reorganization services and mergers, bankruptcy filings, and fraud investigations are escalating.



Transcript

And so the question is "What are we seeing across our different businesses as a result of the economy? And are there any bright spots of maybe counter-cyclical services that are actually up while the economy goes down? Does that capture it?" So, it's a really interesting market.. A lot of times, we'll run one of our businesses will be up when another one's down.. But right now, there's pressure on all of our businesses at the same time.. The consulting market is a discretionary span for companies for the most part.. And so, when everyone decides to tighten their spending, they'll start to cut out discretionary projects.. And so, you know, there's pressure that's put on all consulting practice.. Tax got a little gift from the regulators recently.. There is a new regulations that came out around what's called transfer pricing, which is the amount of dollars that one part of a company charges another part of the company to move goods across the border.. That's probably the simplest way to capture it.. And these new regs require companies to do a lot of stuff and we can help them with that..

So that part of the business gets a little boost, right, because the regulators just put in a new regulation.. The other practice, there's a ton of pressure on pricing.. There is a lot of capacity in the industry right now because I don't know if you guys know what Sarbanes was, but it was a bunch of regulation around auditors and audits and internal controls inside the companies.. And so, that created a lot of work for auditors and a lot of work for companies and that's kind of on the downhill slide.. So, that work is tailing off a little bit because the regulations have been eased a bit.. And so, there's a lot of capacity in the industry which creates pricing pressure, right? It's just like following a standard economic model.. And so, the bright spots are, unfortunately, reorganization services.. So there's a lot of bankruptcies.. Fraud investigations are picking up.. That's another, you know, economic counter-cyclical service..

And, you know, an example that you'll relate to, you guys heard.... have you heard of Satyam? Does that name ring a bell? It's a big Indian outsourcing company.. They announced a few weeks ago that they had a billion dollars' worth of cash on their balance sheet that actually wasn't really there.. So they had they were fraudulently reporting their financial results.. And so, we're doing a bunch of work at Satyam to investigate that.. So there's some funny counter-cyclical services like that.. But, you know, at the same time, we are still seeing companies invest in infrastructure.. So some companies have the perspective that I want to come out of the downturn stronger, so I'm going to fix some of my problems now.. I'm going to fix my systems.. I'm going to do some mergers..

So, in Silicon Valley, there's a lot of cash on company's balance sheets and valuations are coming down.. So that creates an opportunity for companies to buy and perhaps merge with some players who are weakened by the economic situation.. And that merged company will then be stronger when we come out of the downturn...