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Firms must stay tuned to shifting demands

Adaptability and agility are the watchwords as new markets and customers put pressure on traditional business models, writes Andrew Hill

ing industry is big. The question is: how adaptable is it? Adaptability and agility are the current buzzwords for consultants as much of the developed world struggles to emerge from the aftershocks of the financial and economic crises of the past five years, and customers in fast-growing markets impose new and different pressures on the traditional consultancy model.

"The world seems stuck," says Cesare Mainardi, who was elected chief executive of Booz & Company this year. He blames a confluence of the US presidential elections, the chronic eurozone debt crisis, uncertainty about the shape of institutions in the Middle East and debate about cles – tend to fall over if they stop

veryone knows the consult- wait-and-see mode: things aren't frozen, but it's hardly liquid."

"The pundits who said this would be a 10-year recession five years ago are probably more accurate than most people think," adds Norman Lonergan, who heads Ernst & Young's global advisory practice.

Richard Brown, managing partner of Cognosis, a smaller London-based strategy consultancy, foresees a bounce in confidence later this year, but says "I don't think this stop-go pattern should surprise anyone. Clients have been hit by several waves of uncertainty . . . and 'stop and think' is a natural reaction.'

Whether the future is prolonged recession, wait-and-see, or stop-go, the key for consultancies that - like bicygrowth in China. "Companies are in a moving forward, is to find ways to uncertainty such as now, demand for



vehicle-based explosive device detection system to protect troops in Afghanistan. More on FT.com

shape their model to the shifting demands of their clients.

Where is this demand concentrated? Regulatory change continues to provide a steady supply of business for hungry consultancies. Even if the presidential race in the US has put financial services and healthcare reforms on hold for now, the EU marches ahead with its plans for changes in regulation of the banking industry

"Heavily regulated industries offer many opportunities for consulting firms," says John Furth, chief executive of the US Association of Management Consulting Firms. "Client companies need to anticipate and plan for regulatory and legislative changes, which they often need outside experts to help them with. In periods of high

this kind of advice goes up dramatically.'

Another driver of demand for consultants is performance improvement. This is the mantra of big companies as they seek to squeeze more from existing operations in a tough economic climate, and call on consultants to help them improve supply chains and streamline processes.

Technology - notably cloud-based computing, applications for mobile devices and social media, and "big data" or the issues surrounding the proliferation of data – is also creating opportunities for consultancies. Steve Sashihara, chief executive of Princeton Consultants, a US-based information technology and management consultancy, says the question of how to innovate and tackle technology challenges is again firmly on the agenda

of senior executives.

European consultants add that scenario planning is again popular with clients seeking to make sense of economic uncertainty.

The real prize goes, however, to consultancies that can knit these different areas together - or, in the case of smaller groups, ally with others to offer a range of interdisciplinary skills

and then adjust course as client requirements shift. Customers that may start by ordering up a tactical cost-saving initiative - for instance, a supply chain reorganisation - may decide, as they see an economic upturn coming, that they want consultants to frame a more strategic approach.

'In effect, clients want the consulting value chain to break down and **Continued on Page 4**

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Business of Consulting



View of Riyadh and the Kingdom Tower: Saudi Arabia is a consulting hotspot

Think local for global expansion

Emerging markets Moving overseas provides challenges but solutions are profitable, says *Ross Tieman*

ouble-digit growth in demand for consultancy has put emerging markets at the centre of expansion for many western firms in the consulting industry.

Global firms are pouring investment into their operations in fast-developing economies; medium and smaller consultancies are placing their bets among Bric nations, Asean and other markets; the Middle East and Africa inspire the kind of enthusiasm reserved for Russia in the 1990s.

Yet emerging markets are far from homogenous. In the Middle East, the consulting market of the six-nation Gulf Co-operation Council, including the hotspots of Saudi Arabia and Qatar, grew more than 20 per cent in 2011 to €1.1bn, says Fiona Czerniawska, managing director of Source Information Services.

But the Indian market, worth about €1bn, grew by just 5 per cent, she reckons. Not only was the Indian market smaller than that of Spain, but its growth lagged behind the esti**Case study** Triple takeover for Ernst & Young in South Africa

Making acquisitions can be an effective way for a consulting firm to accelerate organic growth in emerging markets. But each has to be carefully evaluated and its staff wooed before a deal can be struck. Andy Embury, advisory

services leader for Europe Middle East, India and Africa at Ernst & Young (E&Y) says: "You have to kiss a lot of frogs before you find the prince.

Yet in the past 17 months, E&Y has succeeded in buying three modestly-sized consultancy businesses in South Africa to speed its growth there.

In July 2011 it bought Quindiem, which supplies services in actuarial and risk build were we to do it analytics. In April this year it added Q-Core Consulting, which helps banks improve their Q-Core we were able to add transaction systems, and last industry skills to accelerate the month it purchased the build-out of our financial services consulting interests of the business there." Buying the Resolve operations Resolve Group, which focus on human resources and their enables E&Y both to deepen the contribution to the performance skills it can offer and widen its of organisations. client base in human capital All three are in Johannesburg advisory in South Africa. Most importantly, it will strengthen the and are being integrated within firm's ability to deliver large existing E&Y operations. E&Y expanded its global business transformation and advisory business by 16.2 per change projects for which it finds growing demand in

decided to go more towards the pat-

Mogens Heering, senior vice-presi-

dent for China, Middle East and Cen-

tral and eastern Europe at Danish

technical engineering consultancy

COWI, says his firm developed a

substantial international activity by

following clients including financial

institutions, development agencies

Mr Heering says: "We are consoli-

dating these footholds, making them

into a growing business, preparing

ourselves for substantial expansion in

COWI sees transport, health, energy

That is driven by rapid urbanisa-

tion, plus, in the Middle East, efforts

by governments to upgrade the qual-

and water as the four high-growth

tern of the larger firms".

some of these markets.'

sectors globally, he says.

now is in flexibility.

sulting practice.

people.

"Efficiency and flexibility

are generally bad bed-

fellows," says Mark Pear-

son, managing director of

'Now the mantra is

'dynamic operations' that

are much more resilient,

flexible and responsive."

Accenture's operations con-

and the EU.

revenues of \$4.95bn, and is expanding strongly in emerging markets. Almost all the growth was organic, yet such a pace requires a lot of new people. Hiring teams via acquisitions can speed things along In consulting, if you are making an acquisition, you need to be sure the people will stay.

That is easier in small to midsized deals, says Mr Embury. South Africa, Africa's largest market and biggest consulting centre, offers some of the continent's best acquisition

opportunities, he reckons. "Each of the acquisitions added specific capabilities which it would have taken us longer to

organically," Mr Embury says. "In the cases of Quindiem and

emerging markets.

The Resolve deal embraces three businesses with a total of 42 staff. Resolve Consulting seeks to align people strategies with business imperatives. Encounter Consulting develops people through assessment, training and coaching, while Converse Consulting focuses on change and communication. The business brings clients in both the public and private sector.

"This was a way of us bringing on board an impressive capability and some very strong people who we can inject into the right opportunities," says Mr Embury. E&Y can thus "bulk up" its existing operation in this field. For people in the businesses

acquired, joining E&Y opens the door to more consulting

service emerging market clients. Mr Poulter says: "It's no longer just a case of building a local team in the fastest growing markets. You need to serve clients from those markets globally and mobilise the best international expertise – as well as have a relationship with them locally."

Partners at the Big Four audit and advisory firms stress the importance of a strong local presence, with understanding of the local culture and of the legal, tax and business environments.

Technology change and the increasing sophistication of some emerging markets add another imperative for consultants to be present.

Clients are not seeking hand-medown western business or organisational models, but best-of-type solutions adapted to local circumstances.

Consumers in emerging markets may set global trends while companies often pioneer new ways of doing business – including in consulting.

Indian challengers such as Tata Consulting Services and Wipro have

Retrenchment as government work dwindles

with

Public sector

What began in the UK is now taking its toll in the US, says Gill Plimmer

When Lockheed Martin and Booz Allen announced plans for hundreds of job cuts this year, it was a sure sign that management consultants in the US were beginning to prepare for a in government decline work

Although the industry had already been hit by the downturn in public sector activity in the UK, the picture had – until now – been persistently brighter across the Atlantic.

This is the first year that it's really going to get tough in the US," says John Furth, chief executive of the New York-based Association of Management Consulting Firms (AMCF). "People are really holding their breath," he says. "It's not a great time to be in this business and if there is any growth, it's going to be mild.

Most of the damage is expected next year when the industry feels the full force of the so-called sequestration, which will slice \$1.2tn over a decade from planned spending, including more than \$500bn from defence. Lockheed Martin, which has a consultancy arm, is particularly vulnerable given its relion government ance defence contracts but others are feeling the pain, too. Many management consulting companies have been taking preventive meas-

ures,

according to Mr Furth. Booz Allen, for example, which cut its workforce by more than 500 employees in advice to think-tanks and January, or 2 per cent of its total, has said it will take a a move that could lead to cautious approach to new hires until the effect of the industry. government budget cuts

in train that could yet revitalise the market for consultants in the public sector. This year the government said it was considering outsourcing policy management consultants in greater demand in the

Nevertheless, changes are

It is also in the middle of

to make it easier for small

businesses to win contracts.

The framework will cover

all central government con-

sultancy contracts worth

more than £100.000, and will

be mandatory for every

department once it is intro-

Alan Leaman, chief exec-

utive of the Management

Consultancies Association,

says he is disappointed with

the slow pace of progress on

ConsultancyOne. "Ministers

and taxpayers are entitled

to be sure that consulting is

only commissioned when it

is needed and in a way that

guarantees a good return

for the public," Mr Leaman

says. "That is why we are

so disappointed Consultan-

He argues that the west

coast main line debacle -

where a contract to run the

railway line was handed to

a private sector bidder and

cyOne has taken so long."

duced in spring 2013.

income falling a further 19 per cent last year, it said. This has forced the industry to change its business models and refocus on private sector work, with the ratio of private to public work now at around 80:20, according to the MCA. The cutbacks continue to push smaller consultancies out of work and larger ones to trim their staff numbers. Consultancy businesses such as KPMG, which had staved off mass redundancies in the wake of the

according to the London-

based Management Consultancies Association, the

trade body. There has been

little improvement since public sector fee

credit crunch by introducing flexible working schemes, are now culling staff - the first big wave of redundancies in the group's UK business since 2002, when hundreds of jobs were lost amid tough economic conditions and sluggish mergers and acquisitions

activity The company, one of the big four consultants in the UK, said in August that around 300 staff members could lose their posts as it blamed a "subdued economy and fast-changing marketplace"

Cuts are pushing smaller businesses out of work and larger ones to trim staff numbers

mated 7 per cent achieved in the German market, which, at around €5.7bn, rivals the UK to be the world's second-largest after the US

Firms debating where to invest face complex choices around relative growth rates and market size. But by common consent, the pace of Indian market growth will recover, and today's hotspots also include parts of Latin America as well as Russia, China, Turkey, Indonesia and Vietnam.

The arrival of western consultants in emerging markets was triggered by demands from local companies that were globalising, and the need of emerging market governments for advice.

Two main strategies developed in response: global advisory champions sought to be local everywhere and national or specialist firms followed their clients.

"Larger international firms go to China, they go to Brazil or Argentina - to country markets - and invest in building up an office, and take a lower margin or even a loss for two to three years," says Antonio Schnieder, president of the German Federal Association of Management Consultants (BDU) and chief executive of markets Capgemini Deutschland.

German-based firms, meantime, have followed automotive and machine tool manufacturing clients to markets such as China and Brazil, he says. But now the biggest "have

cent in the year to end-June to

opportunities, E&Y's global resources, and to more career paths. E&Y will continue to seek acquisitions to reinforce its

Africa growth strategy, Mr Embury says. But whether it finds them or not, it will continue to invest substantially in building its presence in emerging markets in Africa and elsewhere.

Ross Tieman

ity of services they provide in the wake of the Arab spring of 2011.

But Andy Embury, advisory services leader for Europe, Middle East, India and Africa at Ernst & Young says private sector demand is developing, too. Consultants continue to counsel western firms inbound into emerging markets.

But now they also advise emerging market champions locally and those that are "outbound" both to developed markets and from India to Africa, for example.

John Kerr, managing director, global consulting at Deloitte, says: There is a huge opportunity for us to help companies based in emerging markets to grow."

Tony Poulter, global head of consulting at PwC, says consultancies are responding by changing the way they

internationally using a thrived blended business model drawing on lower-cost expertise in India.

Mr Schnieder sees rising local competition in India, China, Russia and elsewhere.

John Furth, chief executive of the US Association of Management Consulting Firms (AMCF), says: "If you go country to country you are going to find some pretty major competitors to the big global firms.'

One result is "brutal" competition, says Mr Embury at E&Y. One solution is working with local firms. Though some big firms eschew part-

nering except when obliged by clients to hook up, others seek out local partners. For midsized or smaller firms, the incentives can be strong.

Ms Czerniawska calculates that 'about a third of all consulting work has an international component to it", so to bid for that chunk of business firms need international reach.

This has triggered moves by some small to midsized consultancy firms to create links with peers in different countries, she says.

Partnership can also rhyme with courtship. Consulting firms are often wary of acquisitions, lest staff at the target leave after the deal.

But partnerships between international and emerging market consultancies have been a longstanding way celled. of testing compatibility. Mr Schnieder says: "Sometimes you acquire them and sometimes you do not.3

becomes clearer. Almost the overhauling the way it proonly sector within governcures external advisers. This includes the launch of ment that remains buoyant is information technology, ConsultancyOne, a new according to the AMCF. framework that is expected

Furthermore, while prospects for management consultants that rely on government contracts in the US may be deteriorating, they are not getting much better in the UK. Ever since it was elected in 2010, the coalition has pledged to cut consultancy bills amid unease over the billions of

pounds spent on professional fees in the past decade Spending on external

advisers had grown sharply under the Labour government as services were privatised and expensive projects rolled out. But Francis Maude, the coalition's Cabinet Office minister since 2010, has pledged to take a scythe to consultancy spending, with several large projects, such as the identity cards pro-gramme, which racked up millions of pounds in professional services fees, can-

then retracted because of a poor procurement process -As a result earnings from illustrates what can go wrong when the right government dropped by about a third in 2010, expertise is not deployed.

Factories' drive for flexibility brings firms back to the floor

Manufacturing

Companies seek to remain competitive as confidence returns, writes *Rod Newing*

Across the world, manufacturing has become a hotspot for consultancies as improving business conditions raise confidence in the sector, encouraging companies to bring in external advisers to help them stay competitive.

"Now that manufacturers are beginning to feel a little more buoyant, they are engaging with consultants to ensure they keep that leading edge," says Stuart Smith, chairman of Bourton Group, a performance improvement consultancy.

"The role of consultancy has changed from being one

of provider of resource to coaching and mentoring heavy focus in the past on manufacturing managers."

efficiency and integration is UK-based firms are still extremely important, among those benefiting but they are now in an era from this trend. Work for of permanent volatility and the manufacturing sector are never sure where the grew more than any other next supply chain crisis is last year, according to the going to come from. As a Management Consultancies result, their biggest interest

Consumers

in emerging

may set

global

trends

Association (MCA). Fee income rose 21 per cent to account for 16 per cent of total private sector revenue, the MCA says. The work was predomi-

nantly information technology consulting, project or programme management. operations and outsourcing. The MCA sees this as an

early indication of some economic rebalancing, with clients trying to focus on productivity and efficiency, by exploiting economies of scale and minimising inventories, through the use of information and communication technologies

For Accenture, clients' The result is the ability to manufacture on a global basis, seamlessly shifting production between locations, to respond to exchange rate or commodity price movements or shifts in supply and demand patterns.

At PA Consulting Group, procurement consultant Tim Lawrence also finds companies turning to consultancies to help manage uncertainty in tough times. Areas such as nearshoring, flexible manufacturing, digitalisation, personalisation and 3D printing are driving some companies to consider radical new ways of manufacturing.

Accenture has developed Mr Lawrence notes that model that involves the "manufacturing reinvenuse of analytics to drive tion" is leading to increase more responsive planning; ing interest in consultancy makes fixed assets more to support new technoloflexible and adaptable; flexigies, new processes and new IT, that might mark ble innovation and design; and agile execution through the emergence of a manufacturing revolution.



Facing the future: 3D printing is a technology about which manufacturers need advice

charge of Grant Thornton's practice, says manufacturers are looking for highervalue, deep-sector expertise, project management, analytical skills, performance improvement and research and development

These involve changes in staffing and skills, restructuring and the ability to take a holistic look at operational structure - areas where consultants excel and with which experts in engineering and production may be less familiar.

"Manufacturers become more demanding

and continually reviewing and renegotiating their contracts, putting more pressure on their existing consultants to become more creative and find ways to further reduce their costs," says Mike Hunter, European head of business consulting at Cognizant Technology Solutions.

these strict requirements."

Richard Lamming, profes-

sor of supply chain strategy

at Manchester Business

School and a non-executive

pany, says the new ideas arising from disruptive innovation and geopolitics no longer fit with the old way of doing things, by dusting off old approaches and selling them under a new name. "Consultants need to appeal to the cerebral as well as the visceral," he says. He also believes in good

"This is driven by the old "shirtsleeve" consulneed to restructure and tancy, where consultants adopt new operating models get their hands dirty at the to survive in the current operating level. Consultaneconomic climate. The probcies need staff with internalem is that many existing tional manufacturing expecontracts are too rigid to rience, rather than MBAs allow for this creativity. The who know how to sell a strategy but would not result is that competition in this market is likely to soar, know one end of a machine as the major consultancy tool from the other, he says. players battle it out to meet "Manufacturing consul-

tancy may be the fastest area for growth, but it is starting from a low base," Mr Lawrence admits. "However, there are signs that director of Vendigital, a sup- manufacturing is starting ply chain solutions comto become 'sexy' again."

Stephen Rigby, partner in performance improvement

for growth.

Specialists face threat to domination

Environment Strategy firms, the Big Four and NGOs are muscling in but clients' in-house expertise is growing, too, writes Sarah Murray

scrutinising everything from their carbon emissions to the amount of waste they generate, opportunities have emerged for specialist consultancies nificant number of people who with environmental expertise. As a result, these boutique firms have been enjoying something of a bonanza. However, competition in this segment of the consultancy sector is rapidly heating up

Environmental consultancies emerged in the 1970s, driven by factors such as increased regulation in many Nordic countries and the creation of the US Environmental Protection Agency in 1970.

"Most of these consultancies were fairly technical - for example, working in areas like environmental impact assessment or environmental engineering for major development projects," says John Elkington, founding partner and executive chairman of Volans, a future-focused business.

For most companies at the time, "employing consultants on such issues was a necessary nuisance", says Mr Elkington, who cofounded SustainAbility, the consulting company, in 1987

This soon started to change. From cation, but also in areas such as envithe late 1980s, corporations were turning to environmental consultants, reduction strategy and product life usually to help them clean up their act after reputation damage in the wake of environmental and human companies on everything from compli-

s companies have started disasters such as Bhopal, one of the world's worst industrial accidents.

The chemical industry was an early mover in this respect. "After Bhopal and other incidents, there were a sigbelieved that the chemical industry was not necessary," says Joel Makower, chairman of GreenBiz Group, publisher of GreenBiz.com. "So the emphasis at first was on messaging.

Gradually, however, companies began to realise that fixing a broken brand exposed them to yet more reputation risk if their practices did not live up to the public claims they made about being a responsible businesses.

The rapid rise of the web provided a powerful incentive. The availability of instant communications made it hard for multinationals to hide their business practices from public view. Suddenly, activists identifying industrial pollution or environmental destruction could spread the word globally in a matter of minutes

corporate Greater corporate attention to enviattention to ronmental impact soon fostered a small army of boutique agencies with consulting capabilities not only in environmental compliance and certifironmental auditing, energy efficiency, cycle impact assessment.

Today, consultancies work with



Blinded victims of the 1984 Bhopal tragedy: disasters such as this persuaded companies to turn to environmental consultants to help them clean up their act

approach to the design and manufacture of products

Even communications consultancies, such as UK-based Futerra, the sustainability communications agency, provide far more than public relations advice, often working closely with companies on developing sustainability strategies.

For a long time the specialist firms had the market to themselves. However, the environmental consulting landscape is rapidly shifting.

For a start, large architectural and engineering firms, as well as planning and infrastructure companies have set up in-house environmental advisory units.

Many of the large strategy consultancies are also establishing sustainability units. Companies such as McKinsey, Accenture and the Boston Consulting Group have rapidly built up their expertise in this area, offering sustainability advise to their existing client base.

For the big four accounting firms -Deloitte, PwC, Ernst & Young and KPMG - adding sustainability consulting to their offerings through their growing advisory practices builds on existing expertise.

Adding to the competition facing boutique consultancies is the fact that former enemies have been making friends.

As non-governmental organisations good for consultants.'

ance to rethinking their entire have shifted their emphasis from campaigning against the corporate sector to working with companies on environmental goals, they have established business-facing units to assist them.

"They play an important and grow-ing role," says Mr Elkington. "And the learning from their advisory work can usefully shape their policy recommendations."

Another factor that could erode the dominance of specialist firms is that companies themselves are developing in-house expertise in environmental management, while also integrating sustainability across their enterprises, and even throughout their supply chains.

Mr Makower believes it will take a long time before this integration is adopted across the business sector. Nevertheless, he likens the process to the evolution of the quality movement.

"Thirty years ago, quality was on everyone's lips and every consultancy had a Total Quality Management practice," he says. "Today you don't hear much about quality because it's part of how business operates."

If the same happens with sustainability, specialist consultancies and the environmental units of consultancies could see demand for their services fall off. "That's great for the planet," says Mr Makower. "It may not be as

Cass Business School

CITY UNIVERSITY LONDON

Case study Copenhagen goes green

As Hurricane Sandy's devastation across New York and New Jersey has demonstrated, cities not only contribute to the greenhouse gases that cause climate change, they are also vulnerable to changing weather patterns. As cities rethink vital infrastructure, the consultants are being called in, and among them is Ramboll, the Danish engineering and design and consultancy

"We're an engineering consultancy but with a strong management consultancy arm that provides socioeconomic analysis," says Thomas Kveiborg, senior director at Ramboll. "And providing general knowledge about the climate and renewable energy is part of that." Ramboll is not alone in benefiting from the work available to consultancies as cities work to become more environmentally sustainable and resilient. Companies such as Siemens, Cisco and IBM are using a combination of engineering and IT capabilities with their advisory skills to attract cities as clients. Through its Smart+Connected Communities initiative, for example, Cisco is using its intelligent networking technologies to enhance the design, construction and management of urban communities so that they are more socially, environmentally and economically sustainable. At Siemens, the company's Infrastructure & Cities Sector works with municipalities to develop sustainable technologies that

can be applied to urban

power of information

manage their water

affect city services.

Meanwhile, IBM has a

Smarter Cities initiative that

helps cities capitalise on the

technology to do everything

from reduce congestion and

consumption more efficiently

to more accurately predict

weather patterns likely to

infrastructure.

has worked most closely with is its home town, Copenhagen. The Danish capital has set itself ambitious sustainability targets. It plans to reduce its carbon dioxide emissions by 20 per cent between 2005 and 2015 and to become the world's first carbon neutral capital city by 2025. For a city to

While Ramboll has

contracts with cities such as

Chicago and Stockholm, one

of the cities the company

achieve this, a combination of measures needs to be taken, ranging from redesigning transport systems to constructing new green buildings. Progress has already been made. Copenhagen has an efficient public transport system and an extensive network of bicycle paths. It has also transformed its energy supply, with more than 30 per cent now coming from carbon neutral sources. However, hitting the city's

carbon reduction target will not be easy, demanding sophisticated engineering knowhow as well as the ability to work with a range of partners from the public. private and non-profit sectors. For this reason. Mr Kveiborg argues that consultancies working with cities need to have a range of skills at their disposal. "It's down to creating a vision and overall strategy but you also need to draw on technical capabilities," he says

But for those with the right capabilities, plenty of business is likely to emerge for consultancies in the coming years as cities vie to brand themselves as the most sustainable among the world's urban centres.

"There's no doubt that we are seeing cities competing among each other as to who is the most green," says Mr Kveiborg. And for consultancies with the right capabilities, this can only be good for business.

the issue produced a small army of boutique agencies

Greater

Sea change in IT demands a pilot for difficult waters

Technology

Stephen Pritchard finds issues such as cybersecurity, the cloud and 'big data' require expert help

In 2013, global technology spending is expected to reach \$3.7tn, according to Gartner, the market research firm. And IT spending is being spread more widely than ever across businesses.

As head of research, Peter Sondegaard told Gartner's recent annual conference, 'every budget is an IT budget, and the role of the CIO is changing". And this is having far-reaching consequences for IT and technology consultancy.

IT consultancy firms have tended to focus on assembling the parts of the IT jigsaw; firms in the sector are sometimes referred to as system integrators. The management consultancy and strategy firms tended to lead the way on business consulting projects.

But changes in both business and consumer technology are forcing changes in the way companies buy IT, and the advice and services IT consultants provide.

Among clients, business units hold an increasingly large percentage of the technology spend, with departments such as marketing, with their control over social media, now significant forces. In other areas, it is boards and chief executives that are driving, or at least signing off, the budget for IT-related work. Peter Lumley, a member

of the management group at PA Consulting, says: "As a consultant, I rarely sell to CIOs.

"There has been a debate over the past five to 10 years about whether the CIO should be at board level. In truth, with recent financial challenges, the CIO has been forced back to 'looking at the plumbing'."

IT spending is increasingly



Security issues are keeping consultants busy

Vishnu Bhat, vice-presi-

dent and global head of

cloud computing at Infosys,

the past six to 18 months

we have had the cloud, ana-

lytics, BYOD [bring your

own device] and security

take centre stage in organi-

"What we are seeing now

The largest areas for new

consulting work, though,

are in data analytics - or

so-called "big data" projects

the business use of con-

spending, work around con-

sumer devices is not always

easy to track, as one reason

for the work is usually to

their own gadgets, such as

smartphones or tablets, on

data, most businesses are at

many consultants believe

will be a medium to long-

term journey to change the

PA Consulting's Mr Lum-

lev says: "The big focus is

tion about big data, but

way companies operate.

But when it comes to big

to the company network.

allow employees to bring

sumer technology.

and around mobility, and

When it comes to IT

sations' strategies.

the IT consultants, says: "In

split between strategic pri- rather than buy, technolorities for the business, and operational day-to-day expenses that companies need to keep as low as possible

Businesses are putting money into areas such as IT security, cloud computing, mobility and especially, big data. There is less appetite, though, for the large and often seemingly interminable investment programmes in back-office software that large companies embarked



structure such as email systems or networks. And this is directly affecting the nature of the IT con-

sulting industry. Hayward, Douglas research director for European services research at IDC, an industry analyst firm, says: "2012 is likely to finish as a year of gentle decline.

"Projects are being [broken into 'chunked' smaller elements] or reduced in scope. We are seeing downward pressure on prices, although there an early stage of what are hot areas of demand, such as security.'

Much of the other work firms carry out, he says, is to make IT systems more flexible, often so that companies have the option in big data. Every organisathe future of switching to tion is having a conversacloud computing, a lower-This reflects the way that cost way of running IT, very few people are actually where businesses rent, harnessing it.

"Lots of businesses have existing data that they are not using yet."

Mark Record, partner at Capco, a technology and management consultancy focusing on financial services, sees more companies appointing chief data officers, and turning to outside experts for advice on how to use data more effectively.

Didier Bonnet, global consulting lead at Capgemini suggests consultancy work in this area is going to grow rapidly, as businesses also tap into data generated by machines and vehicles, as well as communications tools and social networks. He says: "We will have a

ton of data, the problem is to find the data that have business impacts.'

This will force business and strategy consultants to work more closely with their colleagues in IT consultancy, or for strategy consulting firms to arrange a handover to systems inte-

grators, or outsourcers. Where companies are sourcing their technology from the cloud, consultancy firms will have a key role to play, both in advising clients on which providers to choose, securing the cloud systems, and ensuring that they integrate with existing IT systems and especially, business processes.

But consultants also maintain that, especially where businesses rely more and more on data, there is a strategic role for external advisers beyond the plumbing and cost-saving meas ures often associated with technology practices.

That role will be to provide not just advice to clients on how to use and manage technology today, but intelligence about what technology might look like in the future, and how they can affect business performance and profits.

Dan Lauderback, the new head of technology consulting at Accenture, says: "We are dealing with 'megawaves' of technology.

"That means helping companies to evaluate them in a strategic way, and link to them to their architecture and their business."



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Business of Consulting

Payments by result gain ground in tougher environment

Value-based contracts

Cost-conscious clients drive trend for work based on outcomes, writes Rod Newing

Consultancies have always emphasised the value and benefits of their work, yet clients continue to press for market in tough times. lower fees. It is no surprise, make a proportion of their fees contingent on the measurable outcome of their work, varying from a small percentage to the entire fee.

Research by the Management Consultancies Association (MCA), published in a report called "Generating Value: Making a Difference". found the average

rate of return on spending value-based contract 10 factors or contradictory tracts are popular either across all types of consult- years ago.

ing work equated to £6 for every £1 spent on fees. Alan Leaman, MCA chief ticularly over the past two years, how all consultancies

have focused on value. 'They are not simply proreally focused on articulating the value," he says. "It is partly because they think that is the best route to

"It is also making sure therefore, that many firms they are really understood are confident enough to and used effectively, as clients are getting better at saying what they want their outcomes to be.

Of course, passing some tancv result in the client paying a higher fee. Pierre-François Kaltenbach, managing Accenture director of Consulting, Management France, did his first

He says clients are will-

ing to pay more to get some security about the success executive, has noticed, par- of the project. However, Accenture and rival firm Deloitte put a cap on the variable amount payable.

This approach works viding a service - they are only where a number of factors are right. In the public sector, such variable postevent payments can cause problems with fixed budgets.

The project must have clearly identifiable success factors, such as productivity increases or cost efficiencies, as opposed to longterm strategy. The consultancy must be confident of of the risk to the consul- its approach and both parshould normally ties must agree on the detailed measurements that underpin the calculations. This requires isolating

outcomes related to the project, and therefore under its control, from external

management decisions.

"The market price of raw materials, demand or transportation costs can change," says David Fields. author of The Executive's Guide to Consultants and managing director of Ascendant Consortium, which advises on how to get the highest return on exper-

tise from consultants. On a project to improve the performance of car dealers, for example, Accenture excluded the impact of new car launches and macroeconomic factors.

KPMG prefers to use milestones, rather than benefits. "If headcount has to be reduced or a divestment made to reach cost-reduction objectives, the external consultant is not necessarily able to make it happen,' says Mark Hutchinson, KPMG's UK head of management consulting. Wholly contingent con-

where there is a ban on consulting or where the prospective client cannot fund the initial fee. This allows the client to pay the con-



Keep on trucking **Milestones and** variable fees at **Volvo Trucks**

Case study from a Swedish cab plant

sultant using the cash saved or generated. Fiona Czerniawska, co-

founder of Sourceforconsulting.com, notes that the latter situation is very popular in Spain and sees it spreading to other economies.

firms are starting to come out of the "dark ages" and are presenting more opportunities for variable payments. However, he says most clients prefer fixed fees, although this is not

always the right decision. He believes the fixed-fee

option is often used inappropriately when short and long-term success are not well linked, as in cost cutting. "You can cost-cut your way to short-term profit growth, but you cannot cut your way to long-term profit growth," he says.

Before the recession, many organisations said they intended to use more value-based pricing, but Ms Czerniawska says they have not really done so in practice. One factor is that some procurement staff still focus entirely on achieving the lowest possible price. "It is rightfully an

attempt by both clients and

Mr Fields says consulting consultants to be seen to we have a real appetite for add value," she says. "However, in the current environment it never seems to be quite important enough for either side to really make it work.

"I wonder if it tells us more about clients' desire to get big firms to be more accountable." Experience around the

world varies. Accenture finds all geographies are equally interested. Sourceforconsulting.com says value-based consulting accounts for about a quarter of revenues in the US but less than 10-15 per cent in

Europe. Most consultancies are willing to offer contingent fees, especially if a potential contract is very competitive. "We think it keeps us on our toes, as we should be delivering value on every piece of client work," says Mr Hutchinson.

"As a large organisation,

it, because we are not carrying the future of the firm on one contract." As a smaller firm focused on one industry (financial services), Capco believes in

swift decision-making. "Having more 'skin in the game' means we offer better advice because we bet our personal reputation and bonuses. says partner

Mark Jenkinson. Mr Leaman of the MCA wants to see contractual arrangements that concentrate on delivering outcomes, rather than providing inputs. "It encourages the best sort of consultancy to be delivered and is the basis for a continuing and very productive relation-ship," he says.

"We are still in the foothills of this, and the default 'time and materials', with all its drawbacks, is still a pretty strong force, so there is a lot of work to be done.

No stone left unturned in hunt for good recruits

Talent Consultancies are looking far and wide for the people they need, writes Ross Tieman

an estimated 3m people and

he consulting industry is a proportion of people with highly global behemoth, employing specific technical knowledge. Paul Thompson, consulting talent generating revenues of partner at Deloitte UK, says that \$300bn a year. Its product is traditional varsity links remain



Case study PwC apprenticeships

Showing that mixture of slight trepidation and keen anticipation that marks out raw recruits in every walk of life, six young people took their first steps last week on a path to becoming management consultants. For the first time in the UK, the consulting industry is taking on school leavers and training them to be proper management consultants.

The six, who range from a 2012 school-leaver to a seven-year "veteran" of the financial services industry, have joined PwC on a twoyear Higher Apprenticeship. If all goes well they could then join the firm's successful and highly popular graduate course. PwC stresses it is not

signalling any preference for school-leavers over graduate would-be consultants, and the numbers back that up. There were 153 applications for the inaugural six apprenticeships on offer in consulting, compared with 5,180 applications this year

people from," says Ms Caplan. "We also know that

increasingly, young people are thinking about jobs and decide for whatever reason that university is not for them, and we wanted to have an alternative route into PwC for them. The chance to avoid

racking up tens of thousands of pounds in debt for university tuition fees has not been lost on the recruits, although they say that was not the primary reason for applying to joining the PwC scheme.

"The tuition fees sparked my interest in other routes, but what motivated me to apply was the experience I would gain in a big company like PwC," says one.

"At university, you are confined to the campus and lectures, but when you are here it gives you a chance to build your network, meet new people and hopefully get on to the graduate course," says another.

essentially the knowledge vested in important, but that about a third of its people. Yet, like the ideas on sale, they must be constantly renewed.

To fill the vacancies created by employee turnover and growth, the industry needs to recruit 300,000-500,000 people a year, says John Furth, chief executive of the US Association of Management Consulting Firms (AMCF).

In the US alone, the consulting industry employs perhaps 1m people, he says. Since 12 to 13 per cent of staff leave each year, and others have to be hired to cope with industry growth of around 6 per cent, annual recruitment in the US alone must be "easily" 200,000 a year.

But the "talent equation" is changing fundamentally, says Mr Furth.

The consulting industry seeks hires who are "highly-educated, very smart, very business-savvy and technologically-savvy". Over the past 15 to 20 years, competition for such people has intensified, especially from financial services, private equity, technology firms "and just about anything that is entrepreneurial".

Meanwhile, recruiters can no longer focus only on graduates of leading MBA programmes, he says. Talent is more diverse and scattered across "thousands" of academic institutions.

"The whole thing has become unbelievably complicated," says Mr Furth. "It's like looking for a needle in a havstack.

Recruitment is also a big preoccupation for consulting firms in the UK and Germany, the next-largest industry hubs.

In the UK, as client organisations become more project-oriented, and more astute themselves, consultants are responding by hiring a larger

graduates who joined Deloitte in September already had work experience. Immigrants They included a barrister and a doctor. Identifying and luring specialists and other experienced hires is a tough task: social media 20th century. plays a growing role. Modern-day curbs

As competition for talent intension immigration fies, management consultancies are are creating working hard to retain the consultproblems for ants whose skills are the backbone of businesses in their business. some countries.

including the US Kate Wood, global head of HR at PA Consulting Group, says that although attrition continues a three-year downtrend, "holding on to people remains a significant priority'

One strategy is the deployment of increasingly personalised skills and career development plans.

Clients offer flexible working to their own employees and expect the same at their consultants

But Aimie Chapple, UK managing director of Accenture Management Consulting and president of the Management Consultancies Association, highlights a drive throughout the industry to introduce more flexible working arrangements.

Many firms are keen to retain more women employees, and some back flexibility with mentoring to help senior women keep their careers on track, enhanced maternity pay and even emergency childcare.

But Ms Chapple notes that today, in

the UK at least, flexible working is disembarking at expected by all, including fathers who Ellis Island, New play a bigger role in childcare. At Accenture, 52 per cent of UK York, in the early

Alam

employees now use flexible working arrangements and career flexibility options include leave of absence, study leave and secondments with clients and community organisations. Clients' needs for fast and effective service must be met, says Ms Chapple, but increasingly clients offer flexible working to their own employees and expect the same at their consultants.

German consultants, too, have faced a talent shortage arising from economic growth, tough hiring competition from industrial firms offering good pay and an attractive work/life balance, and fewer youngsters entering the labour market.

Antonio Schnieder, president of the Federal Association of German Management Consultants (BDU) and chief executive of Capgemini Deutschland, says consulting firms in Germany are responding by increasing their international recruitment.

Some are hiring visa-free European Union citizens from its southern states. Capgemini, he says, has recruited from Spain, Italy and Greece. But after lobbying by the BDU and engineering leaders, the government has introduced a new Blue Card work permit and visa scheme to draw highly-qualified migrants to Germany.

The minimum salary requirement has been slashed from €65,000 to just €35,000 for engineers and IT specialists. "It is now much easier to get people from India or Asia," says Mr Schnieder. IT consultants are already taking advantage, and management equation is no easy task.

consultants are beginning too, he says But in many other countries, the increasingly international nature of

clients and the consulting industry alike have turned immigration restrictions into a problem. AMCF's Mr Furth says: "We are an

industry that is hugely dependent upon the flow of international talent into and then out of the US, and if that gets hampered in any way it is a big problem for the industry longer term.

In the US the AMCF now engages in 'selective advocacy" in Washington, pressing for reform of immigration restrictions. But Mr Furth says consulting firms are "hamstrung" because uncertainty over availability of visas makes it hard to tap the talent pool of foreign students educated at US universities and colleges.

Alan Leaman, chief executive of the Management Consultancies UK's Association, says consulting firms in the UK also face problems arising from efforts by the UK government to reduce immigration by non-European Union citizens.

Obtaining visas for inbound consultants can involve more paperwork, delays and uncertainty; hiring non-UK graduates from UK universities may become harder. Such difficulties are contributing to a more global approach to finding recruits.

One solution is to hire talent in India, China and other emerging markets. Building virtual teams across borders can facilitate delivery of services locally, backed by faraway employees. Yet solving the talent

from graduates for 242 consulting posts.

'We wanted to ensure that we are recruiting from the most diverse pool of talent as possible," says Sara Caplan, PwC's engagement partner for the Professional Services Higher Apprenticeships (PSHA), the new UK scheme that provides a nationally recognised framework for what the six recruits will be doing, and enshrines the qualification they hope to

get at the end. "We are always looking for people who are creative, entrepreneurial and have different backgrounds and ideas, and to do that, you have to look at where you are going to get different

leavers programme for some years, says Ms Caplan, and wanted to formalise it. The launch last year of the government's Higher Apprenticeship fund created the opportunity for the firm, working with its peers, large and small, and other employers, and with trade associations such as the Management Consultanices Association, to develop the first employer-designed Higher Apprenticeship framework

Other consulting firms, including those involved in designing the PSHA, are showing interest in starting their own apprenticeships schemes for school leavers.

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Firms must stay tuned to shifting demands of new markets and customers

Continued from Page 1

become 'made to measure'. depending on their requirement and not what the consulting companies wish to do themselves," says Colm Reilly, government and public sector expert at PA Consulting Group.

The fact that much of the world's fastest economic growth is likely to come from new markets is helping to put pressure on consultancies to be more flexible. "It's really clear to me that we can't succeed with the old traditional model unless we adapt it and adapt it quickly, because many of the clients in these markets don't have the baggage of history that western organisations have," says

E&Y's In China, for example, local companies are increasingly impatient with the old system of flying in a team of consultants: instead, customers are looking for local expertise, bolstered by a few high-quality globe-trotting partners.

In India, clients prefer to start contracts with new consultants on a value basis where the consultancy shares a part of the improvement in value that it brings to the customer the opposite of the tendency in Europe, where valuebased billing has proved slower to catch on. Across emerging markets,

mobile telecommunications. While consultants still consultants that had believe that the public secbecome used to following

Mr Lonergan. big clients into new coun- tor in developed markets ties: it's a significant part of tries have found they must will need them in the comget ahead of their customing year to help cut costs, ers and establish a foothold the paradox is that the size of the overall public-sector first – an approach that is particularly necessary in pie is declining. That is not the promising but risky the case in many fastermarkets of Africa, likened growing markets.

Mr Mainardi of Booz by Mr Brown at Cognosis to Asia, five or 10 years ago". points out, for example, Finally, companies in that, for all the uncertainties sown by the Arab these growth markets can surprise established US, spring, the popular upris-European or Japanese comings also set off demands petitors – and their advisers for significant changes in education, the welfare state, by simply leapfrogging over them into newer procand the structure of government in the Middle East. esses and technologies, as has happened in many Where many western econoregions that now use paymies are cutting back pubment systems based on lic services (with outside help), Mr Mainardi says Booz is "helping governments build their capabili-

our practice"

The very diversity of these new markets also puts significant stresses on consultancies as they seek to tailor their offering to new clients.

Two factors should help to mitigate this pressure. One is recruitment, which, as Mr Mainardi points out, is "the lifeblood of the profession". It requires an influx of 300.000 to 500.000 people a year just to keep that lifeblood flowing. Such figures explain the

fears of US and, to a lesser degree, UK consultants that immigration restrictions may hamper their ability to develop and move talent around the world. It is also

why some are worried that managing partner-elect of what one consultant calls "the Instagram effect" will tempt talented graduates to join start-ups, with the potential of becoming super-rich entrepreneurs rather than merely well-off strategy advisers.

Another is culture, which provides a foundation for older consultancies whether they are under attack, or on the offensive. McKinsey harked back to the values of Marvin Bower, the exhead of the firm who transformed it into a modern consultancy, to help restore confidence after the insider trading scandal that led to the conviction of ex-head organisations have' Rajat Gupta.

AT Kearney, invokes Tom Kearney, the firm's founder, when he describes what marks the consultancy out: "Everybody has a global network, everybody has smart people and works for blue-chip companies, and everybody has a mix of services. On these aspects there's very little differentiation. I think the differentiation is in the type of people and the culture of the firm.'

The test for such established names is the extent to which they can mould their staff and culture to the fast-changing requirements of new customers and markets, while retain-

Johan Aurik, the global ing their bedrock values.

'Many of the clients in [new] markets don't have the baggage western