

Business of Consulting

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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*

Everyone knows the consulting 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 growth in China. "Companies are in a

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 Loneragan, 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 bicycles – tend to fall over if they stop moving forward, is to find ways to

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 uncertainty such as now, demand for

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

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Ground-breaking development saves lives of UK troops in Afghanistan



In an unusual engagement, PA Consulting Group devised 'Panama', an unmanned, vehicle-based explosive device detection system to protect troops in Afghanistan. More on FT.com

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Business of Consulting

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*

As companies have started scrutinising everything from their carbon emissions to the amount of waste they generate, opportunities have emerged for specialist consultancies 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 the late 1980s, corporations were turning to environmental consultants, usually to help them clean up their act after reputation damage in the wake of environmental and human

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 significant number of people who believed 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 business.

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.

Greater corporate attention to environmental impact soon fostered a small army of boutique agencies with consulting capabilities not only in environmental compliance and certification, but also in areas such as environmental auditing, energy efficiency, reduction strategy and product life cycle impact assessment.

Today, consultancies work with companies on everything from compli-



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

Getty

ance to rethinking their entire 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 advice 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

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 growing 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 good for consultants."

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 infrastructure.

Meanwhile, IBM has a Smarter Cities initiative that helps cities capitalise on the power of information technology to do everything from reduce congestion and manage their water consumption more efficiently to more accurately predict weather patterns likely to affect city services.

While Ramboll has contracts with cities such as Chicago and Stockholm, one of the cities the company 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 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.

Sarah Murray

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 Sondergaard 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'."

This reflects the way that IT spending is increasingly



Security issues are keeping consultants busy

Hian/Dreamstime

split between strategic priorities for the business, and day-to-day operational 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 on a decade ago, and a desire to simplify IT infrastructure such as email systems or networks.

And this is directly affecting the nature of the IT consulting industry.

Douglas Hayward, 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 'chunked' [broken into smaller elements] or reduced in scope. We are seeing downward pressure on prices, although there 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 the future of switching to cloud computing, a lower-cost way of running IT, where businesses rent,

rather than buy, technology.

Vishnu Bhat, vice-president and global head of cloud computing at Infosys, the IT consultants, says: "In the past six to 18 months we have had the cloud, analytics, BYOD [bring your own device] and security take centre stage in organisations' strategies."

"What we are seeing now is a lot of conversations about what the medium to long-term landscape of enterprise IT looks like."

The largest areas for new consulting work, though, are in data analytics – or so-called "big data" projects – and around mobility, and the business use of consumer technology.

When it comes to IT spending, work around consumer devices is not always easy to track, as one reason for the work is usually to allow employees to bring their own gadgets, such as smartphones or tablets, on to the company network.

But when it comes to big data, most businesses are at an early stage of what many consultants believe will be a medium to long-term journey to change the way companies operate.

PA Consulting's Mr Lumley says: "The big focus is big data. Every organisation is having a conversation about big data, but very few people are actually 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 integrators, or outsourcing.

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 measures 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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