

BUSINESS of CONSULTING

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Determined to keep heads above water...

... but will the economic downturn cause the flow of future work to dry up, asks Stefan Stern

George Osborne, the shadow chancellor, has set out in stark terms what the management consultancy industry should expect from its public and private sector clients in the coming months.

"In the private sector when times are tough you take out the overheads," he told the Conservative party conference this autumn. "The consultants are sent packing... Government should do the same."

If true, this prediction of a collapse in demand might persuade some management consultants to take up alternative employment in an industry with a more hopeful future. Talk to leading consulting firms, however, and it becomes clear that no such grand exodus is being planned. Mr Osborne's description of client behaviour seems to have been a little exaggerated.

There is no mistaking the difficult economic circumstances in which market participants are having to operate. Ambitious strategy plans, which might not deliver payback for several years, are unlikely to get so easily signed off now, in contrast to those rapid-response projects which may produce cost savings or increased revenue within a few months. "Nice to have" work is bound to lose out to urgent and necessary interventions.

But this does not mean that most major consulting firms are not still busy with a wide range of clients carrying out all kinds of work, large and small, tactical and strategic. Several consultan-

cies report 2008 as being a best-ever year, with no calamitous collapse in business, recession or no recession.

Of course, the pipeline of future work could suddenly dry up – that is one of the eternal truths in consulting. But this remains a \$300bn global industry according to figures for 2007 from Kennedy Information, a US-based research firm. Advice is always needed. It is the nature of the work itself that changes.

"We are busy," says Steve Ellis, Bain's worldwide managing director. "This sort of environment creates challenges for clients." Andrew Stewart, head of financial services in Europe for Navigant Consulting, says: "We're busy when things are good, and we're busy when they are bad."

John Drzik, chief executive of Oliver Wyman, accepts that growth is going to be slower for his business next year – but he is still expecting growth. His firm's advantage, he believes, lies in its track record of work and the long-standing relationships it has with clients.

"People are going to rely on the firms and individuals they know really well," he says. "It could be harder to make an impact as a new name at a time like this."

Mr Drzik suggests that diversification may be necessary for some consulting businesses, if they can pull it off – "consultants are not always fungible", as he puts it. But, in theory, consulting firms have three ways in which they could diversify: geographically, focusing resources on

healthier markets; in terms of sectors, if they have staff with the experience and the ability to shift their focus from one industry area to another; and – hardest of all – in terms of capability, if big strategic thinkers are able to prove that they can cut it in restructuring or operational efficiency projects.

But when cost reduction is the name of the game, savvy clients are going to head for the consultancies with credibility and long track records in this area. Alan Middleton, chief executive of PA Consulting Group, says his colleagues are never happier than when they are getting stuck into less glamorous but essential operational efficiency work. Creating real value from this work is a defining characteristic of his firm, he believes.

Here, too, the question of relationships is key. "We know that some clients are going to be under severe pressure just now and may not be spending a lot of money on consultancy advice," he says. "But the lesson of previous downturns is that this is the time to stay in contact, and keep talking, because the upturn will come. Clients remember who stuck with them even when there was not a lot of spending going on, and who was just a fair-weather friend."

With this sober approach in mind, PA is not hiring as energetically as some competitors, wishing to avoid the excesses of the last big downturn in consulting that came in the wake of the dotcom crash.

Several consultancies echoed this view. Between 2001 and 2003 there was an over-reaction in the industry, with many jobs going, and in particular too many graduate recruits seeing their job offers withdrawn.

This did lasting damage to the



Downcast: the crisis takes its toll on a New York Stock Exchange trader

Getty Images

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Consolidation **Jess Scheer** reviews recent mergers and acquisitions in the industry, and consider the extent to which these have been prompted by current market conditions



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Firms keep cool as credit crunch hits financial services clients

Consultants specialising in the financial services sector face a particular challenge because their clients were among the first to feel the credit crunch and are among the hardest hit by the economic downturn, writes **Brooke Masters**.

Banks, insurance companies and asset managers are having to restructure and cut costs even as they face increased regulatory scrutiny. Consultants could lend a helping hand in all three areas, but the question is whether their clients can afford them.

After the 2001 dotcom bust, fees dropped dramatically as many businesses reduced their use of consultants. This time, consultants say, the need to retool businesses, reducing leverage and improving risk management, could save them from the axe.

Penney Frohling, head of the financial services group at AT Kearney, says she is optimistic. "The problems are so big and the shifts are so seismic that it is very unlikely that clients can adjust without external advice," she says. Ms Frohling

warns that consultants focused heavily on capital markets will suffer now that mergers and equity raising have dropped sharply. Firms with a broader banking and insurance focus will do much better.

Shamus Rae, European head of sourcing for KPMG, says he also expects client needs to overwhelm their urge to cut consulting costs. But he says consultancies must focus on providing practical help. Clients are particularly interested in standardising and integrating their global operations, he says, to reduce risk and cost. "It's about having people who can operationalise strategy rather than just come up with strategy."

At Navigant, Simon Kent, managing director of financial services consulting, says the new regulatory and cost environment provides an opportunity even as some forms of business drop away. The hot areas are likely to be in risk management, adjusting to regulatory changes and cost management, he says. "There is bags of opportunity out there because there is so much change going on and so much to be fixed."

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Business of Consulting

Firms keep heads above water

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profession. Talented people were let go, only for firms to discover that they were short of talent when the world economy recovered and boomed in subsequent years. Knee-jerk redundancies were followed by an undignified hiring frenzy. The industry seems to be keen to avoid a similar over-reaction this time around – possibly good news for any anxious consultants who may be feeling under-employed at the moment.

Bain's Mr Ellis argues that the current downturn has helped to amplify a trend that already had some momentum: the demand from clients to see tangible returns on their investment with consultants, as well as "knowledge transfer" – leaving clients with the ability to use new tools and approaches.

"Expertise is increasingly a threshold issue," he says. "Clients are setting the bar higher and higher as far as your results track record is concerned."

It is possible to paint a darker future scenario for the consulting industry. Not only will some middle-ranking firms possibly find it harder to get a hearing from clients right now, but even the grandest strategy firms are potentially going to see a key part of their revenue – the financial services businesses – cut their spending sharply (see box on Page 1).

Execution rather than strategy is likely to be seen as a priority by clients, who will be more intolerant than ever of large, beautifully written reports that cannot easily be put into practice. At a time like this "thought leadership" may be of less use than down-to-earth, seasoned advice.

Costs too will inevitably come into play. The advantage of a relative "boutique" consultancy such as London-based Eden McCallum, whose associates are drawn mainly from top-tier consulting firms, is that their cost overhead is vastly lower, and their prices commensurately more competitive.

So here is the meaningful short-term forecast for the management consultancy industry. Specialise, deliver tangible and significant results, or expect an unpleasant 2009.



Bain's Steve Ellis: busy

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New light thrown on offshoring

OUTSOURCING IN FINANCIAL SERVICES

Rod Newing on a strategy that can work in good times as well as bad

The credit squeeze has been a wake-up call for the financial sector, which is being forced to revisit its outsourcing strategies.

The industry has historically accounted for 30 per cent of global outsourcing activity, according to Technology Partners International (TPI), a sourcing advisory company. But this has recently fallen to about 15 per cent and the total value of contracts awarded for banking outsourcing is down 54 per cent so far this year.

"We are early in assessing the repercussions of what has just happened," says Duncan Aitchison, TPI's European president. "We have seen a hiatus in decision-making, while financial services companies try to figure out how bad it is and what the impacts are."

The Management Consul-

tancies Association recently produced a survey of 70 members of the British Bankers' Association, which revealed that more than 90 per cent of financial services organisations have already outsourced some part of the business and almost a third had transferred work offshore. Significantly, 41 per cent expect to increase their level of outsourcing.

"Five years ago it was either seen as an admission of defeat or a wild and wacky option," says Simon Kent, managing director for financial services at Navigant Consulting, a sourcing adviser. "Now, nearly everyone has done something."

The issues vary between institutions, with different attitudes between global players and local institutions and between retail banks, investment banks and insurers. However, in all sectors outsourcing has traditionally been associated with creating economies of scale to support growth, consolidation and globalisation.

"Now the credit crunch has come, the corridors of power are finding outsourcing propositions for growth

are just as relevant for efficiency and cost strategies," says Orlagh Tuite, a senior manager at Detica. "They are considering the same outsourcing strategies, but in response to batten down the hatches."

Institutions are moving up the value chain beyond outsourcing support functions, such as IT and human resources, into areas such as finance, procurement,

Consultants now see outsourcing as more of a relationship than a transaction

research, analysis and account management.

"The credit crunch has forced organisations to reassess their core business and tighten their definition one notch further," says Alan Leaman, chief executive of the Management Consultancies Association. "If it isn't at the heart of their competitive advantage, they are considering outsourcing it."

Mark Beaton, UK head of outsourcing for Accenture, says smaller, mid-tier organisations have not yet committed to outsourcing and offshoring. He attributes this to philosophical restrictions associated with the sense of community from being, in many cases, locally based. But with the credit crunch and a push for cost cuts, he expects this to change.

Unfortunately, only 54 per cent of respondents in the MCA survey felt that their organisation understood how to get good value from outsourcing and only 24 per cent thought they adequately understood the offshoring industry.

Shamus Rae, a partner at KPMG, says that historic outsourcing contracts in financial services lack appropriate governance, fail to align the outsource management team's objectives and goals to those of the organisation and have not fully demonstrated value.

Consultants now see outsourcing as more of a relationship than a transaction. "It is about communication and collaboration, not delivering a contract," says Nas-

Janmohamed, vice-president of global strategic deals at Capgemini. "We need to be more adaptive to our clients' changing business environment and needs. You can only do that if you can sit down at a table, roll your sleeves up and talk a problem through."

Martyn Hart, chairman of the National Outsourcing Association, advises management consultants who deliver a service not to wait for clients to come to them, but to be proactive in looking at new ways to help them in this new market.

Mr Hart says consultants should be offering clients their experience of benchmarking or maturity analysis of their processes to see how things could be achieved differently. Customers should be reviewing everything in the light of a new business strategy.

Mr Aitchison at TPI says he can see outsourcing in the financial services sector returning to historic levels, "to achieve near-term cost reductions, facilitate restructuring and ultimately provide for growth out of the downturn".

Cautious line on hiring but no freeze

RECRUITMENT

Rod Newing on the lessons firms have learnt from the last downturn

Consulting is traditionally one of the top choices for graduates and the large consultancies have huge recruitment programmes. However, the industry has learnt the lesson from the 2002 downturn, when firms carried on recruiting even after demand had started to drop significantly. Although billings remain buoyant, firms have been recruiting more cautiously for some months in the hope that supply will be more in line with expected reduced demand.

"We clearly have a difficult environment," says Alan Buckle, global head of advisory at KPMG, "but you can't cut back on your business in anticipation every time it looks bad. Consultancy has always been more about persuasion and detail than it is about inspiration, so it is a time for very careful focus on the detail of the business."

He advises looking at the pipeline very carefully to make sure it is believable; make sure you are not over-recruiting; look for opportunities to move people overseas or into other parts of the business; and make sure that you are not believing your own publicity.

"You have to act with extra caution and keep watching like a hawk, in case you get into difficulty and have to do things very quickly," he says. "If you do that you will come through the period as well as you possibly can. At the moment, things look fine and we are in 'so far, so good' mode."

Consulting firms learnt from 2002 that it is unwise to stop the recruiting machine in its tracks, as it can harm their reputation and make it difficult to increase recruitment later. Matthew Parker, managing director of Step-Stone Solutions, which provides talent management software and services, warns that any graduates that firms fail to recruit now may subsequently develop their career with competitors.

"Failing to recruit graduates may harm a consultancy's position in the marketplace," he says. "Its employer brand, which it may have spent a lot on developing within the graduate market, could be irreparably harmed by an absence of even one year. It could also hamper its ability to attract and retain talent long-term."

The other obvious response to a downturn in work is to reduce headcount, often as consultants come to the end of major client assignments. But this also has potential to harm the core brand.

"If you start to 'slash and burn', you will lose the best consultants," says Paul Cooper, communications director at the Institute of Customer Service. "The key is to keep all your best people, because you need them to get business out of the more limited market."

He points out that it costs eight to 10 times more to get new clients than it does to keep existing ones and also that the public sector may not cut back on consultancy. Once it has developed a relationship with a consultant, the last thing a client wants is to have someone new on the account – or nobody at all.

"Keeping existing clients is absolutely critical," he says. "Consultancies need to put more effort into client loyalty, so keeping their best people is absolutely the best business decision."

Trying to manage talent involves balancing recruitment and retention with an uncertain workload. This puts a major emphasis on internal resource management systems.

The Management Consultancies Association has recently published *The Capacity Conundrum* by Sarah Taylor. The report, sponsored by Maconomy, a provider of business solutions for professional services companies, showed that capacity planning is either the most – or the second most – important business process for the majority of consulting practices. However, 55 per cent of respondents are able to plan their resources only for the next



'If you start to "slash and burn", you will lose the best consultants'

Paul Cooper
Institute of
Customer Service

three months and 26 per cent are able to do it only for the next four weeks.

"Many feel they do not have all the information or formal systems required to manage resources effectively," says Ms Taylor, "which would seem a very risky way to manage a very expensive resource. Resourcing and capacity decisions are clearly central issues for consultancies, yet this is an area which is not well documented and is often managed very informally."

Even though the current global business climate is difficult, resource management will remain a challenge when things improve. This is because profitability will always depend on balancing client pressure on fees with consultants' wish for higher salaries, shorter hours and more time for community service.

"Many consulting firms have been complacent about their resourcing for years," concludes the report. "A much tougher market means this is no longer sustainable. It should not be a knee-jerk reaction when a new project comes on to the horizon. It should be closely aligned to the strategic direction of the firm and its business objectives."

Will clients see red on green issues?

ENVIRONMENT

Fiona Harvey on the likely impact of the economic crisis on a buoyant sector

Environmental consultancy has been one of the most rapidly expanding areas of the consultancy business for several years. Dedicated environmental consultancies, such as Environmental Resources Management and WSP, have seen profits rise substantially, while nearly all the big mainstream consultancies have been building up their expertise in environmental issues.

But as the economic downturn takes its toll, will environmental consulting be one of the casualties? Will clients concerned with staying afloat show less interest in burnishing their green credentials?

Two factors will be key in answering these questions: whether environmental consultancy can help companies to save money and improve business performance; and whether the regulatory drivers that inspired the rush to environmental improvements hold firm.

Looking to their environmental performance can save companies money, according to several recent studies. McKinsey Global Institute, for instance, concluded that an investment of about \$170bn a year in

energy efficiency worldwide – equivalent to less than 2 per cent of the world's annual investment in fixed capital – would yield a net profit of about 17 per cent, or \$29bn a year.

But the consultancy sector cannot be immune to economic woes.

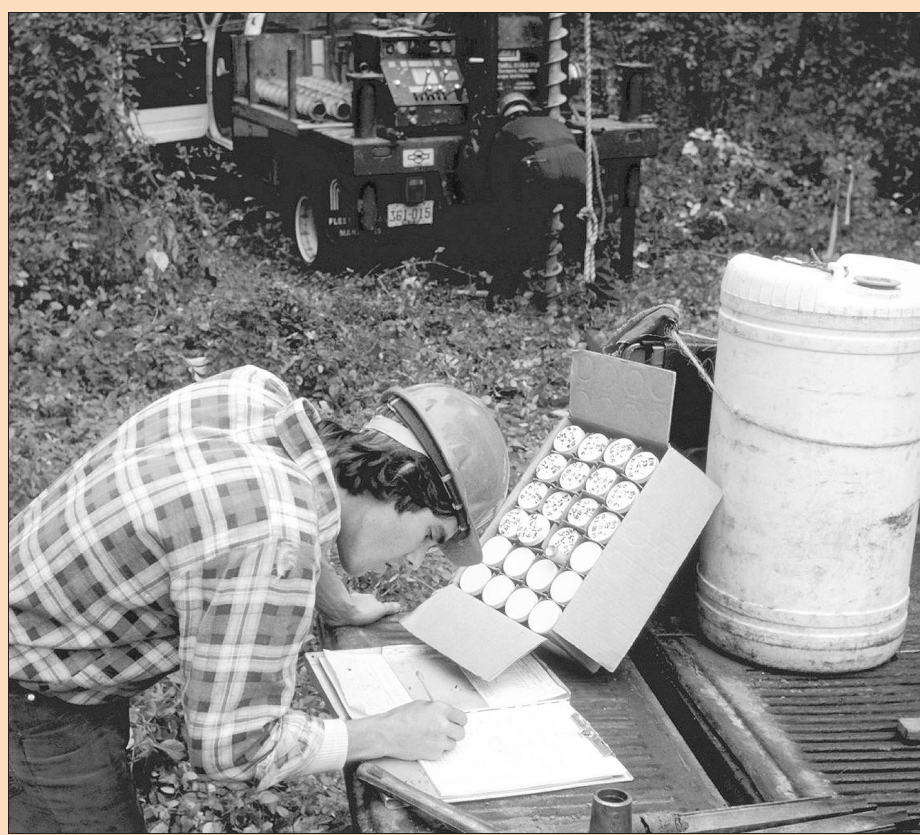
Peter Kydd, director of strategic consulting at Parsons Brinckerhoff, a planning, engineering, and construction consultancy, says falling property prices are the first effects of the downturn to make a difference. "So far, the firms most affected by the financial crisis have been those which were engaged in contaminated land consultancy for the development market," he says.

As property and industrial development slows, the number of contracts for environmental impact assessments for new developments, and for the remediation of old industrial land for new purposes, is likely to fall.

Recent successes in parts of the environmental consultancy market are also resulting in lower prices for more basic work, says Ken Rubin, of PA Consulting Group.

Companies considering their carbon emissions, energy use and recycling have discovered a large body of advice on monitoring and minimising their environmental impact, reducing the potential for consultancies to "add value" in these areas.

Mr Rubin explains: "A



Testing times: core drilling at a new construction site in Virginia, US

Alamy

great number of companies have done the easy things like calculating their carbon footprint and identifying the housekeeping measures that don't cost much but offset energy use in the short run. Not surprisingly, the market for these carbon consulting services is nearly commoditised."

But Mr Kydd predicts that other activities will prove more resilient: "The public

There are signs that businesses may object to tougher environmental laws

sector and energy sector will continue to use environmental consultancy to service their existing and new requirements, which are less affected by the financial crisis and driven more by economic and regulatory requirements."

Whether those regulatory requirements are tightened or loosened in the downturn will go a long way to deter-

mine how consultants fare.

The initial signs are that regulation will increase. The European Union proposes to mandate 20 per cent cuts in greenhouse gas emissions, a 20 per cent improvement in energy efficiency and to derive 20 per cent of energy from renewable sources by 2020. In the US, Barack Obama, the President-elect, has promised a cap-and-trade system to cut emissions. Japan is embarking on an experimental cap-and-trade system.

But there are also indications that businesses may object to strengthening environmental legislation. In the EU, some governments and businesses are lobbying against lowering the cap on emissions under the carbon trading scheme, and calling for carbon permits to be free rather than sold at auction. Mr Obama is also likely to face opposition to some of his proposals, and the Japanese government is reluctant to impose any further obligations on its industry.

If regulations do not tighten, companies will have less incentive to improve their environmental per-

formance. The Management Consultancies Association says: "Fundamentally, the cost of pollution is not yet high enough to focus the attention of senior managers: reducing carbon emissions is still just one of many things jockeying for funds and commitment."

Lower energy prices will also lessen pressure on managers to seek efficiencies, and if industrial output declines, emissions are likely to fall in any case.

Environmental consultancies can hedge against slackening interest in climate change by diversifying into other areas, such as water, waste and transport.

Keryn James, UK managing director at ERM, says: "Overall, we are realistic but optimistic for this year as we operate in a diverse range of sectors and geographies, and offer a range of services. We will continue to invest in strategic areas – particularly climate change impact assessment and compliance assurance, which are regulatory-driven – and in innovation on topics such as biodiversity and sustainable development."

Downturn puts a premium on operational skills

PRIVATE EQUITY

Jennifer Hughes on the rapidly changing priorities of a high-profile client sector

Consultants and private equity groups have always worked closely together. But now, as the economy turns down and markets have seized up, the two are finding their relationship is changing.

Private equity is being squeezed from both ends, according to Charlie Simpson, a corporate strategy specialist at PA Consulting Group, and the result is not pretty for the industry. Groups' ability to raise new funds has fallen off as banks tighten their lending stand-

ards, meaning new buy-outs are a struggle. At the exit end of the business, where they sell their investments, the market to buy these has also dried up.

"A lot of strategic buyers aren't in a position to acquire, the market for initial public offerings has been decimated and the secondary market where other private equity houses might buy in isn't in great shape either," says Mr Simpson. So the groups are likely to have to hold on to the assets in their portfolios for much longer than they initially planned – and that requires a whole new range of skills.

"Private equity guys will show up for board meetings, but they're really on to the next deal and that's where their skill is," says Phil Dunne, head of transaction services at AT Kearney. Typically, private equity

owners would work on perhaps a three-year time horizon before selling the company. Now, inhospitable markets mean they are stuck with assets nearing the end of that period and have to face the fact that this situation could persist for some time.

"Value creation is no longer going to be about financial engineering, its going to be driven through improving the performance of the companies in their portfolio," says David Axon at Celentur Consulting.

"A lot of people in private equity, and the managers they've brought in, are all about delivering significant growth. Now they have to put in downturn plans and think about restructuring, and that's not their core competency – this is where consultants can come into their own."

In the boom times, much of private equity consulting work was based around deals, ranging from due diligence to assessments of likely synergies and other cost savings to be made at the target company.

'Now they have to . . . think about restructuring, and that's not their core competency'

Now, groups are turning towards consultants' more traditional corporate management skills, including classic turnaround cost-cutting activities, rather than the quick-win short-term projects the industry is more used to.

Mr Axon says: "Those pri-

sort used to be a box-ticking exercise to assure lenders. Now, it is a way of extracting value.

"An extra £5m of value hidden in the bottom line could translate to £50m of extra value on a multiple of 10 times ebitda [earnings before interest, tax, depreciation and amortisation]. By holding a magnifying glass to bottom line ebitda and cash flow, private equity houses are combating the uncertainty created by the economic downturn which affects top-line revenue," he says.

Different groups are approaching the task in different ways. Some are setting up performance improvement teams at group level, some are looking to promote best practice across their portfolio companies and others are turning to consultants.

Andreas Von Keitz, a partner at KPMG, says operational due diligence of this

sort used to be a box-ticking exercise to assure lenders. Now, it is a way of extracting value.

"An extra £5m of value hidden in the bottom line could translate to £50m of extra value on a multiple of 10 times ebitda [earnings before interest, tax, depreciation and amortisation]. By holding a magnifying glass to bottom line ebitda and cash flow, private equity houses are combating the uncertainty created by the economic downturn which affects top-line revenue," he says.

Some consultants are recommending clients look at integrating companies in various portfolios, according to Alex Milward, a partner in business advisory services at Ernst & Young, although he says the groups still tend to resist anything that might make it harder to split out

assets when sales are possible. "This resistance is likely to continue, but as the trend for holding on to assets for longer increases, the houses are showing a healthy interest," he says, listing work such as improving the effectiveness and efficiency of their supply chains, generating additional profits through pricing effectiveness, and examining back office efficiency.

For industry consultants, the net result is a shift in the type of work they are doing rather than a drop-off in line with their clients' fortunes. The shift could also last longer than the current crisis, they believe.

But they are still confident in the long-term industry outlook. "This industry has proved itself resilient in the past. If anyone can change and survive, it is this one," says Mr Dunne.

Taking a breather after surge in growth

CHINA

A pause may allow firms to refocus, writes **Damien Blenkinsopp**

After five years of heady growth, consultancies operating in China are pausing for breath as worried clients take stock of the global financial crisis and wonder how it might affect them.

Given the challenges that consultancies have been facing to keep up with demand, however, this is not necessarily a bad turn of events.

In 2006 China's consulting market reached a critical stage in development as demand began to outstrip supply and it switched from being a buyer's to a seller's market. Consulting firms, constrained by resources, started passing over engagements unless it was for strategic clients. Talent became the only limitation on growth and the source of success.

"It's not the market side that sets the restriction – we are completely full-out. It is a people constraint," says Bernhard Hartmann, managing director for greater China at AT Kearney. "The talent situation is particularly acute in China because [the market] has grown as much in five years as other countries have done in 20."

Guo Xin, managing director for greater China at Mer-

cer, agrees. "Talent is the only reason Mercer may not get to a 50 per cent year-on-year growth rate," he says.

In the past two months the situation has changed. Some consulting firms report moderating business pipelines. Others say that, while it has not affected demand, the crisis has resulted in the return of a buyer's market.

China is not completely immune to the crisis. It will fare better than most places – a slowdown is likely to mean a fall from 11.9 per cent GDP growth in 2007 to 8 per cent in 2009.

Moderated growth can give firms some much needed time-out to focus on strengthening their organisation, to ensure that it is prepared to meet future increases in demand and to grow sustainably.

"The situation has been changing with respect to talent," says Mr Hartmann. I have just been in the US recruiting and there was a lot of good quality ethnic Chinese talent looking to return to China. The situation has completely turned round."

This is echoed by Stephen Lee, KPMG's head of risk advisory for China. "I'm getting CVs all the time now and their quality is very good," he says.

Discussions with clients have intensified, and partners are busier than ever discussing the crisis with them. This obviously has benefits in terms of developing the hailed client-consult-



Growing pains: workers at a toy factory in Guangdong province

Reuters

ant trust relationship.

"Many Chinese companies are quite nervous about what the decline in global demand and the global destruction of wealth means," says David Michael, head of greater China at Boston Consulting Group. "I think there is an intense period of time now of Chinese companies really trying to figure that out. That

In a world of challenges, China seems to present more opportunities than threats

presents an opportunity for consulting firms to have something insightful to say on that issue."

Andrew Grant, head of greater China at McKinsey, has a similar outlook: "Dialogue with clients is very strong around the global crisis; they are clearly reaching out to discuss it," he says. "We're talking a lot around the dangers, but also a lot

around the opportunities.

"China will be uncertain for the next 12 months, but we're very optimistic that there will be opportunities for our clients.

"I think we'll see Chinese companies act in bold and different ways in the next 12 months given the opportunities on the table."

As the uncertainty subsides, consulting demand is expected to bounce back to temporarily higher rates as clients respond decisively to the challenges of the business environment.

A survey by IBM of Chinese chief executives early this year found that 60 per cent plan to expand internationally in 2009. The crisis does not look like it is modifying those plans significantly.

"We are already seeing a lot of interest by Chinese companies in doing out-bound deals but they are approaching this with some caution and are doing a lot of due diligence before committing to transactions," notes Calum Davidson, head of advisory at PwC China.

There are also expecta-

tions that multinationals will soon be turning to their China activities to come up with more cash – to help counter the declines in cash-flow elsewhere in the world. In some cases this will drive additional consulting change projects.

"I think the global chief executive for a multinational will look at their strategy and will be thinking: 'Given this overall situation, where is our growth spot going to be?' and I think most of them will think it's going to be China," says Edward Tse, managing director for greater China at Booz & Company.

In a world of challenges, China seems to present more opportunities than threats right now to consulting firms.

Norman Sze, head of consulting at Deloitte Greater China, is far from atypical in his optimism: "We are working with global leadership to look at China as our first priority globally for making further investments," he says. "Regardless of the financial crisis the firm will still grow the business."

Why there's a strong case for case studies

Opinion

FIONA CZERNIAWSKA

Case studies are the poor relation of the consulting industry.

Millions are spent each year by consulting firms on brand-building, advertising campaigns and writing books and articles. By comparison, case studies are rarely top of the corporate agenda, often pulled together in consultants' spare time or as a rapid response to a sales opportunity.

Yet case studies represent the consulting industry's greatest untapped resource and could hold the key to maintaining growth in what promises to be an uncomfortable economic environment.

The value of case studies falls into four areas.

Relationships remain important in consulting: a recent survey carried out by sourceforconsulting.com showed that more than 80 per cent of clients relied on their colleagues' recommendation before choosing a firm. However, the process of buying and selling consulting is changing fast as big organisations set up lists of preferred suppliers and centralise their procurement of professional services. The growing distance between client and consultant means that people need alternative ways of gauging a consulting firm's capabilities.

The same survey showed that the next most important sources of information for clients are case studies. Second, the complex and varied nature of consulting work means it is often difficult to quantify the benefits delivered. Case studies, by contrast, provide immediate proof of what has been achieved in practice, which is especially attractive when people want

a swift return on their investment. Three-quarters of clients say that reading case studies increases the likelihood of them using consultants.

Moreover, the success of much consultancy depends on a partnership between clients and consultants. What better way for them to demonstrate how such arrangements work in practice than by jointly authoring a case study?

Finally, the stereotype of the consultants who write a report but leave their clients to implement it is 20 years out of date. The image persists, however, because there has been a lack of information about what consultants actually do. The best case studies put a human face on consulting.

Clients can be a big hurdle. We do not want our problems aired in public, they complain

So why have case studies received comparatively little attention and investment from consulting firms?

The first problem is confidentiality. We can't talk about what we do without giving away our clients' competitive edge, say consulting firms. But the occasions when consultants pore over top-secret plans are rare.

The advantage most clients get from using consultants lies in execution – which a rival cannot steal.

Clients can be a bigger hurdle. Many a good consulting project goes unrecognised because the client has a policy of not allowing their suppliers to reference them. We do not want our problems aired in public, they complain.

These same organisations will rely on case studies of

others when it comes to choosing between consulting firms, but the irony is lost on them.

The underlying problem on both sides is culture. For decades, clients and consultants worked together to create an air of mystique about the consulting process. Secretiveness became a habit. That is both untenable and counter-productive in business today. Much of the thinking and most of the management tools that consultants might once have called their own have been popularised through books and business schools.

As a result, the difference in capabilities between consultants and their clients has shrunk. In this context, lack of information damages the reputation of the consulting industry and strengthens the hand of clients seeking discounts.

But what might be a threat is also an opportunity: more sophisticated clients are better able to have an informed and intelligent debate about what works well – and less well – in consulting. The key here is transparency. Case studies play a critical role because they help create an environment in which the "magic" of consulting is open to scrutiny and pave the way for future growth.

Today's consulting industry is unquestionably more transparent than it has ever been. Even a cursory glance at firms' websites will reveal a level of detail inconceivable 10 years ago.

But there is still a way to go. As an industry, we have allowed clients to peek under the curtain, but there is a powerful case for getting rid of it altogether.

Fiona Czerniawska is head of research at the Management Consultancies Association and co-founder of sourceforconsulting.com.

SHORTLIST

of strategy & transformation consultants that work with you from strategy to execution:

1. ♠ Capgemini Consulting

(We said it was a shortlist.)



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Business of Consulting

Case Study TMD Friction

TMD Friction was created by private-equity owners merging two firms. Unfortunately they were not properly integrated and Derek Whitworth was appointed as chief executive in July 2005 to turn the company around.

"There had been an 'interesting' corporate history," he says, "so the company needed a complete operational restructuring to get its cost base in order."

The company is an automotive supplier with manufacturing plants in 10 countries. In September Mr Whitworth embarked on a major programme to double profitability, which included a continuous improvement process worldwide.

Mr Whitworth wanted to communicate better with employees, to make sure they understood what was happening, and to give them a mechanism to contribute innovative ideas to the improvement process. He needed somebody to teach the employees a basic improvement process.

"We were in a hurry and needed a specific skill set for a specific deliverable," he says. "I had twice worked with Quest Worldwide at previous employers. I had seen what it was capable of delivering and knew it could do the job."

Although dispensing with the usual beauty parade and shortlist saves time, it increases the focus on negotiating defensible contractual terms. The €2.5m project was based on an agreed number of days over two years, with provision for increasing or reducing them in response to changes in scope. Rates were benchmarked against other consultancies and the work had clear deliverables.

"The key is trust and having confidence that the consultancy can deliver the task you are asking them to do," says Mr Whitworth. "Previous experience counted for more than shaving a bit off the costs."

Quest trained 15 internal coaches and 190 facilitators, who then trained 3,700 staff. The project has successfully contributed to profits increasing 20 per cent and market value doubling.

Mr Whitworth believes that clients should always have a very clear view of what they want done and how to measure its achievement. They must also have a mechanism to make corrections if goals are not being achieved.

"Management who rely on consultants to tell them what to do abdicate responsibility," he says. "They... end up very frustrated when they see lots of cost going out of the business and results that are very different to what they expected. Engaging a consultancy puts a major responsibility on the client to manage them correctly, but if you do you can get a huge amount out of them."



Whitworth: in a hurry

Broad skillset to match high fees

UK FIRMS OVERSEAS

Rod Newing on the many qualities that help win work from foreign clients

Although overseas income represents a small proportion of the total for UK consultancies, it is rising fast.

For members of the Management Consultancies Association (MCA), activities overseas, including consulting, outsourcing and systems development, totalled £198m last year, an increase of 136 per cent on 2006. This does not include the overseas earnings of the large global firms.

The UK consulting industry's fees are the highest in the world, but it seems that some clients prefer to tap into its broader experience and skills, rather than local consultants or one of the big global consulting firms.

"As the second-largest consulting market in Europe, the UK consulting industry is highly regarded for its size and strength," says Alan Leaman, chief executive at the MCA.

"The growth in overseas

consulting has reversed a decade-long trend in which UK-based consultancies had found it increasingly hard to compete in the face of a rise in indigenous consulting firms. Overseas consulting is no longer the preserve of the large global firms and work is now being done by many small and mid-sized firms."

Lynda Purser, director of the Institute of Business Consulting, points out that the UK was at the forefront of the US-originated move in the 1950s to split consultancy away from accounting, to improve independence and objectivity, and achieved it very quickly.

"The UK-based profession has learned a lot during the time it has existed," she says. "It is the collective knowledge of a practice, not just individual knowledge."

The profession understands many types of change in a wide range of organisations and a variety of cultures. It can draw on a lot of experience to investigate issues, diagnose them and propose solutions. In contrast, a lot of countries are embryonic in consultancy.

The profession is helped by English being the de facto

international language of business, enabling firms to work in almost any overseas location. Harry Gaskell, head of business advisory services at Ernst & Young, points out that this in turn has attracted many non-UK nationals into the UK consulting market, for the broad and varied opportunities it affords.

'The UK-based profession has learned a lot during the time it has existed'

"The UK industry continues to attract some of the best and brightest talent from around the world," he says. "The diversity of these organisations appeals to companies, especially those operating in emerging markets."

The UK has a long tradition of working in different cultures, which may give the profession an advantage. Dean White, head of Middle East and emerging markets at PA Consulting Group, says the approach of the con-

sultancies and of individual professionals will determine the extent to which they are welcomed in a region. "This is not the place to commit a cultural faux pas," he says.

PA consultants working overseas come from many nationalities and backgrounds. The firm places primary importance on those who are not just technically knowledgeable, but who have demonstrated their ability to work in a complex cross-cultural environment.

"The international business elite, regardless of its nationality, shares common values, beliefs, attitudes and behaviours," says Richard Brown, managing partner at Cognosis. "Culturally and behaviourally, a member of that elite has more in common with other international business people than they do with most members of their own nationality."

Other factors that come into play are the acquisitiveness of UK companies overseas; London's prominence as a leading international centre of merger and acquisition advisers; the profession's reputation for helping UK businesses become more competitive abroad; and the rise of private equity.

Despite this overseas success, the big global consultancies remain confident of their business model. Mark Foster, group chief executive for management consulting and integrated markets at Accenture, says global business trends are driving the demand for consultancies that can provide their services at scale.

"The opportunities for smaller players will be there," he says. "However, this is a game where global footprint, capabilities and specialisation at scale, together with insights from local practice leadership, will win out."

Mr Brown points out that the US has set the world's economic and business agendas for several decades, but its consultancies are not dominant.

"The British are more flexible, responsive and open minded," he says. "We are reserved and very comfortable reading the subtle cues and clues that make all the difference in cross-cultural encounters. We are better at listening to clients, seeing their point of view and responding to their needs, which is what great consulting is all about."

Help at hand for bringing clients' ideas to market

INNOVATION

Stefan Stern looks at the work of one consultancy with a strong tradition of technology prowess

Consultancies like to talk about solving their clients' problems. Sometimes they may actually do this. Rarer still are the occasions when a consultancy helps the client to develop a new product line or fundamentally different way of doing things.

Everyone wants to see more innovation. But when all is said and done, more is said than done.

The bright ideas and "Eureka" moments that may spring up in dark corners of the organisation might never make it to the market in a commercially viable form. The thinking may be good, but the execution is lacking.

Clients realise they need to innovate effectively as a matter of urgency. As Martin Smith, head of technology at PA Consulting, says, "When resources are limited it focuses minds." PA is entitled to speak with some confidence on this subject as, uniquely among consulting firms, it has a 35-year tradition of working closely with clients via its technology centres, near Cambridge in the UK and in Princeton, New Jersey in the US.

The centres concentrate on hard scientific research and fast-prototyping. They work with several big industrial sectors: pharmaceuticals, for example, developing new delivery systems for drugs; transport, on high-tech timetabling and passenger information systems; and, among others, fast-moving consumer goods (FMCG) companies. PA helped rush the John Smith "widget" – which uses a tiny gas explosion to create a fuller-bodied beer – to market in a matter of months after rivals Guinness had stolen a march.

"There are broadly two different kinds of companies who work with us," Mr Smith says. "We might see a start-up with funding in place that needs the back-up of a 'virtual organisation', which we can provide. Or it could be a big corporation, looking for a breakthrough development to come from outside. If you are just talking about extending an existing product line that is not really innovation," he adds. The people who are still embedded at the business "know too much" about their world to innovate in a new direction.

Three of PA's recent clients testify to the useful contribution the firm made in their attempts to innovate. Rotork Controls, which makes valve actuators that control the flow of liquids and gases in pipelines, wanted to develop a more creative approach among its engineers, boosting its ability to innovate and develop new products.

"PA's guys were credible in front of our engineers," says Graham Ogden, Rotork's research and development director.

"They seemed to 'walk the talk' – they hadn't just read a book on innovation. What they were saying came from the heart."

PA ran training sessions in techniques such as brainstorming, ideas clustering, mind mapping, quality function deployment (QFD) and scenario development. These were followed by a series of ideas workshops, which helped Rotork develop hundreds of ideas for new products and services.

Terex, the construction equipment manufacturer, faced a slightly different challenge. As Paul Douglas, its director of product management, explains, new thinking was required to reduce the manufacturing costs of some of its biggest trucks. But 80 per cent of the costs were fixed, and "you can't re-engineer to get cost down".

His engineers – "hard people to impress" – took part in cost management workshops that got them to think differently about their processes. This approach worked, Mr Douglas feels, because the consultants had a solid background in industry – they weren't just "degree, MBA, consulting" people, he says.

"We came up with a list of short, medium and longer term potential savings, of which 60 per cent came from these workshops. Overall we generated 750 cost-saving

'If you are just... extending an existing product line that is not really innovation'

ideas. We targeted the 110 short-term and 230 medium-term ideas to give us some rapid cost-reduction at low risk and without any impact on quality."

So much for heavy industry. At the other end of the scale: imagine a thermometer that is accurate to 0.001 deg C being inserted into the aorta (the main artery from the heart) to pick up early signs of the inflammation that could be the precursor to a heart attack. This is the product, made by Thermocore Medical, which PA has helped bring to the market.

According to John Yianni, company founder, PA managed the co-ordination of a range of manufacturers, designers and suppliers across Europe (and the US) – which involved leading a roomful of 35 people. It also led the development of the main component, a catheter that is highly innovative. For one thing, it is smaller than previous versions of the device. Secondly, it is easier and quicker to use, thanks to its improved technology.

PA produced prototypes throughout the project, to make sure all parties understood how much progress had been made and where they were all heading.

"It was no easy task co-ordinating all the different players," Dr Yianni says. The patients' heart attacks were not the only ones that were avoided.

The last growth frontier

AFRICA

Andrew Baxter explains why the continent holds such opportunity

Almost 100 years ago, Chris Stephenson's American grandparents came to Kenya as missionaries. Now Mr Stephenson, as regional partner for Africa at McKinney Rogers, is preaching the virtues of improved business performance to the receptive ears of east African corporate clients.

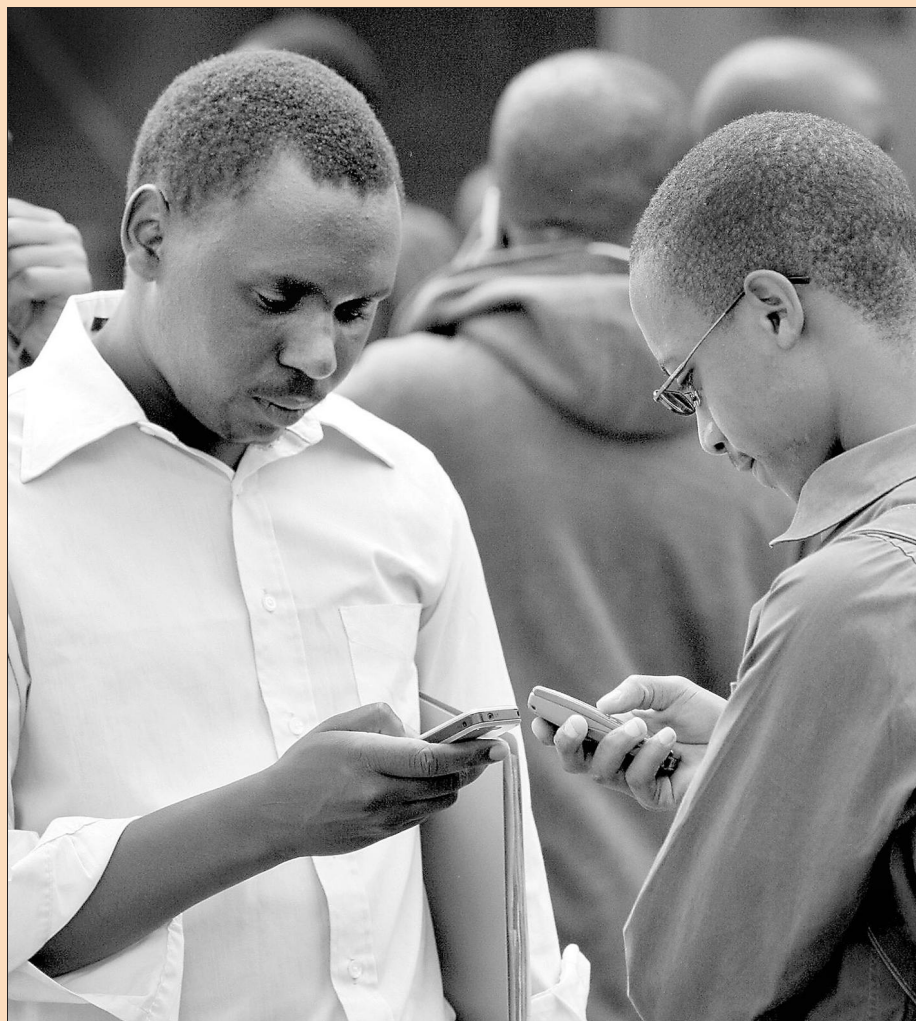
Mr Stephenson set up the London-based consultancy's Nairobi office last November, after 20 years away from Kenya, including 13 years working around Africa for Guinness and Diageo.

"For me it's coming home," he says. "Before we opened the office, we were flying in and out from bases in London, New York and elsewhere, like most of the other international consultants. We saw a huge opportunity and a desire within the African business environment for what we do, and realised that the only way to succeed was to offer proximity and add that to our international expertise."

Other consultancies are following suit. Munich-based Roland Berger Strategy Consultants opened an office in Casablanca, Morocco, last month, having been operating in the region since 2005. "The Moroccan economy is probably the most interesting in North Africa in terms of growth potential, and in the ability to spend money with management consultancy firms," says Dominique Gautier, partner in the Paris office with overall responsibility for Africa.

Across a wide range of consultancies, there is growing awareness of Africa's potential, and of the opportunities available from very different types of clients, both international and local.

"African clients are willing to pay for the best if



Going mobile: consultants are helping companies ring the changes in Africa

Getty Images

they get the best," says Jake Leslie Melville, a London-based partner at Booz & Co who has worked extensively overseas. "They understand quality and are becoming increasingly sophisticated in the consulting market."

For Accenture, South Africa and Nigeria have been the obvious starting points, says Mark Spelman, global head of strategy, as together they account for half the continent's GDP. Elsewhere, he says, there is a considerable variety of work, ranging from telecommunications to microfinance initiatives coming out of global institutions.

One interesting development Mr Spelman notes is the emergence of what he calls E2E clients (emerging

market-to-emerging market) – companies from China, Brazil or India looking to invest and expand in emerging markets such as Africa with its large and young populations. "It's not always

'We saw a huge opportunity and a desire within African business for what we do'

obvious, as these companies expand, that they would want to take on established global multinationals in Europe or North America," he says.

Roland Berger's work in

North Africa underlines the variety of possible engagements. As well as advising local companies such as Royal Air Maroc on their pan-African strategies, the consultancy has just finalised a new sports strategy for the kingdom of Morocco, says Mr Gautier. "The last Olympic games were a disappointment for Morocco," he says, "so the aim is to develop both sports practice in general and elite sports to be sure to win more medals [at London in 2012]."

There are also opportunities away from conventional management consulting. Kroll, the business information and intelligence consultancy, has a growing role in Africa, says Paul Adams, a director and regional special-

ist. The company is famed for its databases of business information but in Africa, "human sourcing" comes in much more, he says.

"There is very little in the public domain and you have to put in the legwork rather than rely on information obtainable on a computer," he says. A typical assignment might be pre-transaction due diligence work in a takeover, where the company being acquired has extensive African interests.

Assignments for mobile telecoms clients are one of the main areas of interest, because Africa is what Caggemini calls "the last growth frontier" in the global market, with a population of 900m and a penetration rate of just 20 per cent. Jawad Shaikh, a vice-president in Caggemini's telecom, media and entertainment consulting practice, says clients operating in Africa are willing to pay the 50-70 per cent premium that western consultancies can charge over local counterparts, in return for strategic advice that reflects their experience working for clients in Europe.

But the flow of expertise is not just one-way, he says: "More and more, some of the learning, for example in mobile commerce and payments, is available to bring back to Europe."

Overall, consultancies are reporting steady or strong growth in their African businesses, albeit from a small base. There are managerial challenges for firms – Mr Spelman at Accenture says that with more than 50 countries at different stages of evolution, it is important to discriminate.

It can also be a tough working environment and security may be an issue in some countries. But Kroll's Mr Adams says that, if a firm is to be considered truly global, the challenges should not deter it from offering a service to, say, a US client seeking to expand in Africa: "From a strategic perspective you need to show you are there."

Women make progress in climbing through the ranks

DIVERSITY

Brooke Masters on the benefits of being a leader in flexible working

For decades, professional services firms have been bemoaning the dearth of women in leadership roles. But over the past decade, consulting firms have taken concrete steps towards doing something to fix it.

From networking groups and "mentoring cafes" to leadership seminars and extra financial support for women returning from maternity leave, consulting firms are experimenting with different ways to sup-

port and retain the female part of their workforce.

Along the way, they have made the industry a leader in using flexible work arrangements and are helping compete effectively for the best and the brightest women and men in "Generation Y", the 20-somethings who have put work-life balance at the centre of their demands.

For most consulting firms, the drop-off in female representation remains quite stark: while 40 per cent of Deloitte's graduate intake is female, only 18 per cent of those at senior levels are women. At KPMG, 48 per cent of managers are women, but this drops to 13 per cent at the partner rank.

But diversity advocates

say they see progress, both in attitudes and in numbers. "The proportion of women in the senior grades is growing. It is slow, but it is in the right direction," says Neil Amos, a partner in PA's government practice.

Rather than helping women out of benevolence, many firms now see retaining trained consultants as a matter of business necessity. Not only is it a waste of training time and resources, but it harms recruiting in the next generation.

"We're really talking about talent issues. The traditional areas that people used to look to are shrinking in the UK, so we need to think about how we are going to be able to recruit from diverse areas," says

Isabel Naidoo, head of diversity for Accenture in the UK.

Imelda Galvin, chief operating officer of KPMG's forensic practice, adds: "It is a business imperative to attract and retain the best people. We put our money where our mouth is."

Some firms also recognise that women can bring different skills to bear. "Women are quite good at aspects of management, managing diversity and working in teams. These are things we must encourage if we are going to add value," says Judith Halkerston, managing director of energy, utilities and telecoms at Logica.

That has led to programmes such as PA's decision temporarily to boost the salaries of newly-returned

mothers so that they can afford to work fewer hours without sacrificing pay in the first few months. Deloitte has emergency childcare on call. IBM lets all employees – not just par-

If anything, clients prefer consulting firms that are making efforts to retain women

ents – buy up to two weeks of extra leave, which many consultants use to plug childcare holes. KPMG invests heavily in state-of-the-art teleconferencing, which makes telecommuting

and other flexible arrangements more possible.

Clients, on the whole, have been supportive of the efforts to accommodate a variety of work arrangements, consulting firms say.

"There has been no push-back from clients and sometimes you hear them say: 'Well I only work three days a week and it works for me'," says Accenture's Ms Naidoo. "Clients want a job done and with quality by a certain deadline, but it's up to us how we manage that."

Tracey Gilbert, an associate partner in IBM's global business services business, says there have been virtually no complaints from clients about its five-four-three policy. Even consultants who work five days a week

are on site at a client no more than four days and away from home no more than three nights. "To be healthy in your working life, you have to have work-life balance," she says.

If anything, clients prefer consulting firms that are making efforts to retain women, either because they want to work with diverse partners or because they would like to tap their expertise on flexible work arrangements.

The current economic downturn raises the question whether all of these programmes will fall prey to cost-cutting. Many firms say they do not think so.

"It is short-sighted for organisations to rein back on these types of

approaches," says PA's Mr Amos. "During difficult times you need the whole organisation to pull together."

And Heather Hancock, a diversity champion at Deloitte in the UK, says the difficult conditions give the firm an opportunity to build long-term relationships with employees who will always remember that the firm did not cut back.

"These things have been done because they are the right long-term thing to do. If you are looking for impacts across a two- or three-year horizon, that is when the economy is expected to turn around," Ms Hancock says. "We want to keep people and we want people to keep with us."