BUSINESS of CONSULTING

FINANCIAL TIMES **SPECIAL REPORT** | Monday November 15 2010

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Difficult times spur wave of change

World at their feet: the Big Four and other firms are expanding globally, generating business in emerging markets such as Brazil, China and South Africa dreamstime

Revenues from the public sector are down but work for private clients has rebounded, writes **Gill Plimmer**

Even when times are good, management consultants are popular villains. Now times are difficult, there is a queue waiting to beat them up.

The backlash started last year. With the sector already hurt by a fall in demand from the private sector during the recession, the UK government soon began raining blows on the industry.

The Labour government's pledge ahead of the election to axe consultants was soon repeated by the Conservative/Liberal Democrat coalition that succeeded it.

In August, Andrew Lansley, secretary of state for health, called expenditure on advisory services in the National Health Service "staggering" and implied he would cut the consultancy budget further.

According to the Management Consultancies Association, which represents 70 per cent of the industry in the UK, member organisations have already seen a significant fall in public sector work, with most expecting the drop to steepen in the remaining part of the year.

But if the recession has left management consultants dealing with the most difficult landscape since the dotcom crash 10 years ago, it has also driven a wave of change.

Even as public sector work has fallen, demand from the private sector – by far the biggest user of consultancy services – has rebounded, though hard times for clients have put pressure on volumes and fees.

Consulting revenues at the Big Four professional service firms are growing. PWC's rose 15 per cent in the 12 months to June, while Deloitte's grew 14.9 per cent and Ernst & Young's by a more modest 2 per cent.

The Big Four – which also include KPMG – are generating more of their revenues from consulting practices, and expanding them in anticipation of a buoyant few years.

Much of the growth is driven by new services. Consulting firms are addressing topics such as low carbon and online marketing. Many are expanding their global reach, and discovering new markets.

Smaller firms have been acquired by larger ones, while the Big Four are gaining market share.

Consultants say there is less demand for "blue-sky" thinking and more for advice on restraining costs, opening branches and improving technology systems.

Growth-oriented projects are starting to come back. In the long run, according to consultants, even the cost-cuts in the public sector could lead to a boom in demand for their services, though tougher, outcome-based contracts are likely to be imposed.

"I think it's widely understood that management consultants are up there with estate agents and journalists as people you take a pop at," says David Owen, managing partner and head of Deloitte's UK consulting practice, whose public sector work accounts for about 30 per cent of revenues.

"I'm absolutely sure there will be more rigour applied to contracts, but it's also conceivable the government will realise the cutbacks involve important and complex decisions, and they will need consultants."

Richard Rawlinson of Booz & Company agrees. "The pharmaceutical and healthcare industries are big growth areas worldwide. President Obama's healthcare reforms are leading to a great expansion of this work in the US, and I'd be surprised if the NHS has a monopoly on providing healthcare in the UK in 10 years. We expect a rise in healthcare consulting overall."

A rebound in the Asian economies and the financial services sector, typically among the advisory industry's biggest clients, has also helped offset the decline in government work and spark renewed optimism and hiring in the profession.

According to the MCA, a rise in demand from banks, insurers and manufacturers has helped three-quarters of its members grow in the first half of this year, with industry-wide revenues up 6 per cent compared with the previous six months.

Management consultants say that demand began to return in January, when financial services companies sought help with restructuring and risk management, as well as dozens of regulatory changes being introduced as a result of the financial crisis.

"Life is an awful lot better than a year ago," says Harry Gaskell, head of advisory at Ernst & Young UK. "While the market is a long way from 2008 levels, it is at least showing signs of life."

The rebound has sparked an aggressive hiring spree, as the

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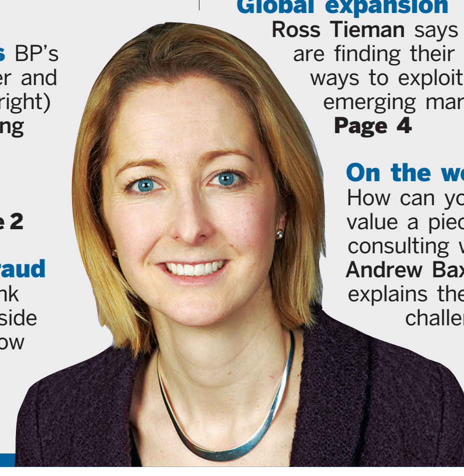

Business of Consulting

Role under scrutiny as spending cuts loom

UK public sector

Rod Newing considers how consultants will fare as the coalition regime wields the axe

When government spending cuts are demanded, slashing the use of consultants is a populist move.

"We expect the new [UK] coalition government to cut spend on consultancy dramatically," says Tola Sargeant, research director at TechMarketView, a research and analysis company. "It is discretionary and singled out as being unnecessary, so it is an 'easy win'. It isn't popular politically to be spending money on consultants when you are making people redundant."

Alan Leaman, chief executive of the Management Consultancies Association, points out that the issue is clouded by the UK government's widespread use of temporary contractors and interim managers, who are often thought of as consultants. "The public sector must distinguish more effectively between people who are there to fill in for a full-time continuing role," he says, "and real consulting work, which is project-based and time limited to achieve a specific outcome."

According to *Central Government's use of Consultants and Interims*, a report by the National Audit Office, central government spent £789m in 2009/10 on consultants and £215m on interim managers. "Consultants, when used correctly, can provide great benefit to clients," says the report. "Using consultants can provide access to skills that it is not necessary, sensible or economic for the organisation to build or maintain itself."

However, it warns that departments are not smart customers and concludes that government is not achieving value for money from its use of consultants and interims. This is because it frequently lacks the information, skills and strategies to manage them effectively. Common errors include not clearly defining the service required, the benefits delivered and how the work will contribute to departmental objectives.

"Although total spending on consultants has fallen in recent years, this is not the result of effective management and control," says Amyas Morse, head of the National Audit Office. "Departments need better information and skills in order to achieve good value for money from their use of consultants."

The MCA wants to achieve a better understanding of the value of consulting and its recommendations include measuring outcomes achieved and/or value delivered, not just costs saved; making more use of incentive-based and fixed-price contracts; and reviewing the outcome of the work in performance assessments.

Alan Downey, head of UK public sector at KPMG, is critical of what he calls "ghetto consulting". "Firms are constantly piling hordes of people into the public sector," he says, "to make money out of poorly defined projects, projects that shouldn't have been commissioned in the first place or poor contract management."

There is a strong belief within the industry that work will continue, as some government departments lack the capability to make the spending cuts required by the recent comprehensive spending review.

"They have to cut their basic back office and administration costs by huge sums, without reducing their level of effectiveness," says Mr Leaman. "The best source of guidance is the private sector, which for many years has been cutting costs, becoming more efficient, introducing new technologies and finding smarter ways of doing things."

Clearly, he envisages that experience being transmitted to them through management consultancies. They will also provide new thinking, new processes and an external perspective on how to design and implement a whole new public services delivery model.

Work on such programmes will be politically sensitive, forcing consultants to justify their work. There is general agreement that the industry must move away from time-based fees

> There is a strong belief that work will continue, as some government departments lack the capability to make the spending cuts required

to risk sharing, in which part of the fee is paid only when agreed measurable outcomes are achieved, which some firms are already doing.

"KPMG would welcome that change," says Mr Downey. "We much prefer to be used in circumstances where our skills are demonstrably of value, rather than something that could potentially be subject to public scepticism and criticism. The key test is whether, as a result of an inquiry from a journalist or a freedom of information request, we can demonstrate that our fee actually delivered good value for the taxpayer."

Mr Leaman says that getting payment by results embedded in the public sector would be a huge step forward, although there is a lot of work to be done by both sides to make it work in practice. "The mood isn't about putting in bodies," he says, "but about delivering value through a benefit and an outcome."

According to Ms Sargeant, there may well be more public sector opportunities in local government, which is less likely to have skills in-house and more likely to need external help from consultancies in pursuit of efficiency savings and productivity gains.

"It is a fragmented market, so it may benefit smaller and mid-sized firms with local government expertise at the expense of larger ones," she says. "It also fits the government agenda of trying to increase business going to smaller and medium-sized companies to 25 per cent."

Research from Knox D'Arcy reveals that active management of staff in local government averages just 3 per cent of their time each day, resulting in 68 per cent of the working day of junior staff being 'lost'.

"Cutting spending by as much as 30 per cent is achievable only through consultancy support," says Paul Weekes, the report's author. "It must help to drive radical culture change, involving a more active management style, better management control systems and individual accountability for performance."

Cutting remarks: George Osborne, the chancellor (right) and Danny Alexander, chief secretary to the Treasury, leave 10 Downing Street as they prepare to deliver the UK coalition government's spending review last month Shaun Curry

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Location, location, location – who cares any more?

Offshore outsourcing

Rod Newing finds consultants are keen to allay official fears over 'exporting jobs'

Consultants believe they have a key role to play in advising governments – and the UK coalition in particular (see article, left) – on how to achieve the spending cuts they are seeking. A critical element of this will be to help them overcome concerns about offshore outsourcing.

Offshore outsourcing is relatively mature in the commercial sector, but has so far made only limited inroads into the public sector. But now the public sector is facing the need for the kind of service improvements, efficiencies and cost reductions offshore outsourcing already delivers so well to the commercial sector.

However, offshore outsourcing is a sensitive political issue. No government wants to be accused of exporting jobs – and they need the taxes and economic activity generated by domestic employment.

"In the US, for example, the sentiment has been very anti-offshoring," says Mark Kobayashi-Hillary, an author, blogger and adviser on globalisation. "The general public has reacted quite strongly and supported any politicians who have said that they will ban any work going offshore."

Nevertheless, offshore outsourcing is used extensively in the US commercial sector, especially in healthcare and financial services. Mr Kobayashi-Hillary says the Australian government sends work to India and the Philippines and the Canadian government has started offshore outsourcing, too. The UK government has no direct offshore outsourcing contracts, but parts of wider contracts are delivered from offshore locations.

NHS Shared Business Services, jointly owned by Steria and the UK Department for Health, carries out finance and accounting. Front office services are performed locally, but much administration and data entry is done in India. "Government money is paying for people to be working in another country," says Mr Kobayashi-Hillary, "but, as Steria becomes more efficient and innovative, hard cash is actually returned to the National Health Service."

The Pensions Authority has a contract with Tata Consultancy Services under which front office administration is local, but some of the underlying technology is located in India. "The UK government has been more relaxed," Mr Kobayashi-Hillary says. "Tata was quite open that the contract would be delivered from multiple locations. The government has also been offshoring application development . . . and non-core administrative processes."

The offshore delivery model is expanding into other territories for delivery to new geographical markets. John O'Brien, research director for business process outsourcing at TechMarketView, an analyst and research firm, highlights expansion in South America to serve Spanish-speaking countries around the world.

Similarly eastern Europe is expanding, as countries such as Romania have a multilingual capability, skilled and knowledgeable people with very good degrees and lower wages than western Europe. The Nordic counties have taken to offshoring and France has been using near-shore services from Morocco.

Jonathan Cooper-Bagnall, head of sourcing consulting at PA Consulting Group, says the real question is not where to outsource but whether to outsource at all. "It isn't a case of offshore, near-shore or local," he says. "Only once you have determined that outsourcing is right for your business should you look at components like location."

Anthony Golledge, head of technical consulting at Detica, says concerns over offshore outsourcing are a red herring. Governments will need the expertise and resources of global operators to achieve the efficiencies they need, he says.

"[UK] government departments face a real dichotomy between meeting the savings and budget cuts from the spending review and keeping local jobs," says James Cockroft, associate director at Xantus Consulting. "Something will have to give and it will almost certainly be jobs."

How to choose a round peg for a round hole

Viewpoint
FIONA CZERNIAWSKA

When my son was a year old, he was given a sorting toy: a box with different shapes cut out of the lid through which matching shapes can be pushed. Eager to set him on the right path in life, I sat with him, meticulously teaching him how to recognise the shapes. After a few goes, I handed it to him. He took the lid off, threw all the bricks in at once and looked at me as if to say: "If you want the bricks in the box, why are you messing around with all this round brick in the round hole stuff?"

In choosing a management consulting firm, it can be tempting to do the same, to remove the lid and throw a bunch of consultants in. But investing time and thought before the project starts yields dividends later on.

Most organisations, when they decide to hire consultants, think of the requirements at quite a high level: "We need a new IT system" or "We need some programme management skills". A more useful starting point is to picture what the project would be like if you used only your in-house resources.

Work out what, if anything, you don't like about this scenario. Anything done by consultants can be done internally, but the in-house approach may take longer to do and have a smaller chance of success. It may even be more expensive because you would have to train your staff.

This will help you understand where consultants will be able to add value at a more fundamental level. Do you need specialist skills, or a tried-and-tested process? Do you need an independent perspective or someone who is savvy enough to handle the political sensitivities of your organisation? These questions should determine the types of firms you put on your shortlist, not their size or global reach.

The next stage, whittling a small number of possible contenders down to the firm you want to work with, depends on three factors.

> However big a firm's brand, success will depend on how well you can work with the individuals involved

More formal procurement processes should not obscure the fact that personal chemistry remains crucial when choosing consultants. However big a firm's brand, however important the methodology they bring, success will depend on the individuals involved and how well you can work with them.

That is not something you can gauge on paper or even when you meet them to discuss your needs. First of all, insist on a preparatory, unpaid stage to the project in which you and your preferred consultants have a couple of days to complete a task. There's nothing like a real deadline to bring out the best, and worst, in people.

Second, focus on the end rather than the means. It is very easy, when buying or selling consulting services, to think purely in terms of skills. As a result, you can spend a lot of time picking over people's CVs and trying to pin down how much time they will actually spend on a project. It makes far more sense to ask the consulting firms to think about what you want to achieve and to explain how they're going to help you.

Even better: you can tell them how much money you're prepared to spend on the project and get them to say what they can do for the budget. Ask them to compete on the value they can add, not the price they charge.

Finally, expect more from your consultants. In times gone by, when consultants were thinner on the ground, they had expertise that "ordinary" managers lacked. They were often better educated and certainly had a wider range of experience to draw on, giving them unusual insight and objectivity.

That is what people expected from them then – but it's not necessarily what we assume we will get today. Widespread business education and a much more fluid labour market have eroded the difference between clients and consultants to a point where both sides talk about working "in partnership".

But I contrast this with the retired head of an investment company who once told me that what he looked for in consultants was the ability to surprise him, to spot something in his business that he had not seen. "That," he said, "is the stardust of consulting."

And that is what you should expect from any consultant. If they cannot demonstrate it when they are pitching to win your business, then you can be reasonably sure that they will not bring it to the project proper. Has their proposal changed the way you think about your business? If it has not, then their work probably will not either. Equally, if you start from the assumption that consultants are a waste of money, then they almost certainly will be.

Like bricks, consultants come in all shapes and sizes: the ones you really want are the stars.

Fiona Czerniawska is joint managing director, sourceforconsulting.com

Using consultants BP highlights changing role of procurement function in relationships with key suppliers

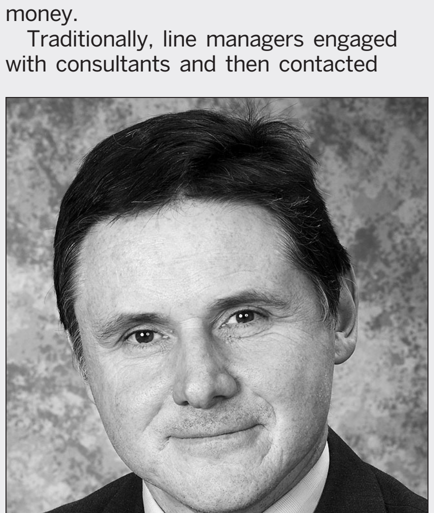
Management consultancy has traditionally been about building strong relationships in the boardroom, with engagements being awarded based on the quality of solution and its potential benefits. Consultants have not always welcomed involvement of traditional procurement functions and their focus on detailed work specifications and costings.

However, BP is an example of a company that is changing the role of procurement, from a process-driven function to an advisory and relationship-driven role. The company uses 30 mainstream consultancies, as well as a number in niche areas with low spend.

"We are in the top 20 clients globally," says Paul Alexander, procurement director for professional services. "We believe that we own our problems and their resolution and we buy consultancy services only where it offers BP specialist skills or independent views that it does not, and should not, possess in-house."

BP believes in having a close relationship with the consultancies it uses and is focusing its time on building relationships with key suppliers that offer the best quality and value for money.

Traditionally, line managers engaged with consultants and then contacted procurement to follow up with the necessary paperwork. This has changed, with procurement now staffed by people experienced in relationship management that have an intimate understanding of the supplier market and the needs of their internal business clients.

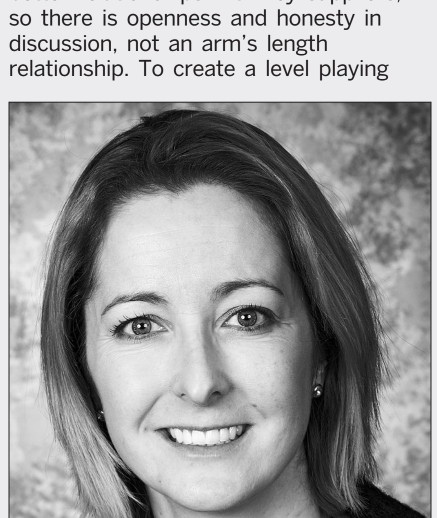


Paul Alexander: BP 'in top 20 clients'

"The more astute members of the consulting community are in and out of here all the time, including their senior partners," says Mr Alexander. "They recognise that the procurement function has an increasingly influential role and it benefits them in the long run to work alongside us. We also act as a 'critical friend' of the [BP business unit]."

Procurement traditionally strives to create a level playing field for suppliers bidding for work. They carefully control communications and information to suppliers throughout the process and their conversations with line management.

"In business consulting you have an uneven playing field if some suppliers have a stronger relationship with a particular client than others," explains Lisa Russell, procurement manager for business consulting. "We want to drive better relationships with key suppliers, so there is openness and honesty in discussion, not an arm's length relationship. To create a level playing field we must encourage and open up discussions between suppliers and internal managers."



Lisa Russell: 'level playing field'

The result is a much speedier tendering process, with BP going straight to consultancies that it knows are strong in a particular area. Given a clear brief, the procurement function can complete a tender in a few weeks.

The key criteria are quality of people and the quality of proposed solution and its price.

"Where we have a large number of global organisations able to provide similar services, the individuals we are working with truly differentiate them," says Ms Russell. "People do business with people."

Procurement has always been concerned with obtaining services at the right quality, using the right people at the right cost, but Mr Alexander says its new role is "bringing common sense, objectivity and discipline to a relationship-rich environment".

Rod Newing

Firms bank on growth as demand revives

Financial services

New regulations are creating a need for external advice, writes **Jane Bird**

When VTB, Russia's biggest international bank, wanted to show it followed global best practice in fraud detection and anti-money laundering, it turned to professional consultants for help.

Reviewing 15 bids, it selected a joint proposal from IBM Global Financial Services, the business consulting arm of the computer company, and Dublin-based Norkom Technologies, a specialist in financial crime detection software.

Using consultants to identify best-of-breed software and help implement it makes sense, says Likhit Wagle, global banking lead for IBM Global Business Services.

"Together, IBM and Norkom are delivering a state-of-the-art system and process enabling VTB to predict fraud . . . without compromising customer service."

The system, which will be operational in 2011, also cuts costs by 10 per cent, by removing duplication and manual processes.

Many banks in Russia, Brazil, India, China and other developing countries are keen to expand internationally, Mr Wagle says. "They need to be seen to be world class in compliance, including fraud, operational risk, and data governance, and are making significant investments to achieve this."

It is part of a revival in financial services that is fuelling growth for consultancy and filling the gap left by declining public services budgets.

The outlook now is much more positive, says Gagan Bhatnagar, a partner at Booz & Company. "Financial services are once again looking for expansion opportunities after two years of being more focused on dealing with the crisis."

David Troman, head of financial services at UK-based PA Consulting Group, agrees: "Financial institutions have been fighting for their survival and now have fewer people and less money available to take on staff. They are using consultants to fill the gap."

Many want help clearing the fog of new regulation, such as the US's Dodd-Frank Act, the European Union's Solvency II, and Basel III.

The aftermath of the financial crisis has been chaotic, says Bill Michael, head of financial services for KPMG. "The new rules for an improved liquidity framework, including better matching the maturity of deposits and loans, are taking a lot of time," he says. "For financial institutions, the challenge is like trying to fix the aircraft while it's flying."

Combined with the new financial regulatory authorities, this creates a good opportunity for consultants who can span sector, regulator and country, Mr Michael says, to provide help in cutting through the complexity and be "co-pilots of change".

But while financial institutions are turning to consultants for advice, they are also much more demanding. They expect consultants to collaborate, as IBM and Norkom have done for VTB.

Increasingly, clients want to cherry-pick individuals from different consultancies to create rainbow teams with hybrid methods, rather than a one-stop-shop, says PA's Mr Troman. "This creates a healthy tension that fosters innovation and keeps consultants on their toes. It is more successful than shoehorning consultants into roles."

They also want cross-industry insight, says Booz's Mr Bhatnagar. An investment bank might want to gain insight into process re-engineering from the automotive industry, or a retail bank might with to learn about customer relationship management from the consumer goods industry.

Fee structures are also changing. Gone are the days when consultants could charge just for their time – now there is often a fixed price element linked to measurable results. Clients are looking for quicker return on investment, says IBM's Mr Wagle. "Previously, contracts were often for seven to 10 years, with the financial benefits weighted towards the end, but now clients want three to five-year contracts with return on investment in the first 12 months.

'[Banks in Bric countries] need to be seen to be world class in compliance'

Likhit Wagle IBM

Nor are clients prepared to pay for initial research and feasibility studies, says Mr Wagle. "They expect us, as industry experts, to come with answers that are relevant and bespoke rather than spend lots of time hunting."

Another trend is for consultants to be "self-funding" – to use money saved by implementing one project to pay for another. The rash of divestments and disposals that followed the shotgun marriages of the financial crisis, and the ensuing regulatory reform, are one obvious example, as the money from disposals that consultants identify can fund further engagements.

This approach is being adopted at one US bank, which used IBM to help it save $100m a year through rationalisation. "The money is funding advanced analytics on customer profitability, an activity the bank previously thought would be too expensive," Mr Wagle says.

A key challenge for the new generation of financial services institutions is integration. They need to "industrialise" their organisations to ensure what they do is repeatable, consistent and uses packaged approaches rather than bespoke systems as much as possible, says Ismail Amla, UK chief executive of Belgium-based CapCo.

CapCo's approach is "straight-through processing", which minimises reworking of data, enhancing its quality and reducing costs. Clients also need help spotting market opportunities, says Mr Amla.

"Financial services that can quickly target Generation Y with iPad- or BlackBerry-based products can open the floodgates," he says. Some Asian banks can now bring out new products in a few weeks rather than the traditional months or even years, he says.

There are also opportunities in the new regulations, such as the EU's UCITS IV, which, for asset managers, will facilitate faster time to market for multi-domicile funds and easier entry into new regional markets, says Mr Bhatnagar. "It's important for organisations to be on the front foot for this and we are being asked to deal with it by a number of organisations."

The pace and degree of change in finance and risk transformation is unprecedented, but consultants are keen to help meet the challenge.

Tuned in: consultants have identified gaps such as marketing apps for iPad users PA

Hard times spur wave of change

Continued from Page 1

Big Four and other firms expand globally and generate new business in emerging markets such as Brazil, China and South Africa.

Deloitte, for example, intends to expand by more than 250,000 staff over five years in a hiring spree that will increase its workforce by a third; Ernst & Young will recruit 5,000 staff in China and India next year.

The role of consultants in these countries is changing fast. While at one time they focused on advising multinationals on how to operate in these markets, now they are guiding local companies on how to expand both at home and worldwide.

Manufacturers, particularly those making consumer products, are looking at their global supply chains and any opportunities to improve their margins.

Hans-Paul Bürkner, president and chief executive of Boston Consulting Group, says industries that were already facing serious structural issues before the crisis – the media, automobile and pharmaceutical sectors, for example – are being forced to rethink their entire business model with greater urgency, sparking demand for advisory services.

"With the pace of change so rapid now, companies cannot afford to rest on their laurels – the status quo is not an option. There is no way back to the 'old normal'. And, of course, what is true for the companies we advise is also true for us."

As a result, many companies are now trying to work out how to tap into these new sources of growth.

Mr Gaskell at E&Y says the technology, media and consumer industries are hot spots for consultants at present. "There's a lot of cost reduction work but also a fair amount of 'How do I get my pricing right, how can I figure out who are the real customers to make money from and how do I invest in those to grow my business?'," he says.

Expansion may come at a price, however. Just as the industry has been criticised for its work in the public sector, so too has its work for the private sector.

Three of the big four — E&Y, KPMG and PwC — were forced to sell their consulting divisions in the wake of the Enron scandal a decade ago.

Now they are rebuilding them, sparking renewed concerns over potential conflicts of interest.

The UK's Audit Inspection Unit, which reviews the quality of audits of big companies, recently said it fears accountancy firms may be less willing to challenge figures put forward by management and to provide impartial judgments if they are selling advisory services to companies whose accounts they sign off.

Michel Barnier, European Union internal market commissioner, has also said that the role of auditors needs closer scrutiny, and is expected to publish a green paper on the subject later in the autumn.

But if management consultants remain an easy target for criticism, they also have their fans.

According to a recently published index of the world's most appealing employers, KPMG, E&Y, PwC and Deloitte rank second to fifth as the most desired companies for graduate jobhunters. Google came first.

The message is clear. The queue waiting to join the ranks of management consultants is at least as long as the one that has been so keen to beat them up.

And, so long as the world keeps changing, advisers will be in demand.

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Global expansion

Firms are finding their own ways to exploit emerging markets, writes **Ross Tieman**

If the consulting industry wants to participate fully in global growth over coming decades, it must invest and build capacity in emerging economies.

As Paul Meehan, regional managing director for Bain & Company's Asia-Pacific region, points out, these economies already buy more than half the world's cars, aircraft and phones. By 2030, they will be turning out more than half the world's GDP too.

Maybe 70 per cent of emerging market GDP will come from just two countries: China and India, says Mr Meehan. But given the scale of the numbers, that means Russia and Brazil will matter, too, along with other Asian and maybe even African countries that are only now beginning to register with investors.

Few organisations understand the opportunities of emerging markets and the imperative of being there better than the top tier of global strategic advisory firms. But the way each is developing its emerging market presence reflects both the nature of present and future opportunities, and the structure and heritage of the advisory firms.

First, as Norman Lonergan, global vice-chair of advisory at Ernst & Young, emphasises: "The mature markets are still the cornerstone of our business". In consultancy that is true for the Big Four audit and advisory firms built on national partnerships, but also for most of their global rivals, whether publicly listed or international partnership. But E&Y alone will recruit 5,000 staff in China and India in 2011. Deloitte talks of hiring 250,000 people worldwide in the next five years.

The role of consultants in China and India is different – and changing fast. Only a decade ago, strategic consultants advised multinationals on how to operate in these markets. Today they battle for local clients, serving rapidly growing domestic companies, some of which will be among tomorrow's global champions.

Five years ago, these emerging market companies wanted help to achieve global best practice. Today, says Mr Meehan, "they are talking about next practice, about how they evolve their strategic and operating models".

Manoj Singh, global managing director for operations at Deloitte Touche Tohmatsu, says 60 per cent of Deloitte's consulting work in China is with local companies. Typical tasks: "Opening business channels outside China, a global product launch, building world-class management practices."

India's needs are similar, but also include supporting inbound private equity investors, national and international mergers and acquisitions, and organisational issues arising from the transformation of family firms into leviathans.

India is emerging as a pool of consulting expertise. Accenture, a listed company with 200,000 staff providing both outsourced services and consultancy, maintains 600 consultants in India who can intervene in projects around the world either in person or via the internet.

This kind of blended consulting, in which local staff provide the core contact, reinforced by airborne global experts and teleworking muscle, is becoming a common model, deployed to good effect by Capgemini, too.

Sylvie Ouziel, global chief operating officer for Accenture Management Consulting, reckons listed consultancies have certain advantages over partnerships in emerging markets where "more and more clients are asking us to tie our consultancy fees to outcomes for clients" – because that could directly impact on partners' earnings. In one deal, Accenture was paid by China Mobile according to the number of new clients attracted and retained.

> Western firms mainly have to recruit, train and develop their emerging market teams organically

Having a ready pot of cash also facilitates acquisitions – witness the €233m purchase by Capgemini of a controlling stake in CPM Braxis in Brazil. But as Ms Ouziel points out, there are few suitable Chinese consultancies to buy, so western firms mainly have to recruit, train and develop their emerging market teams organically.

That is what PwC has been doing in central and eastern Europe, building off its strong presence in audit work. Mark Okes-Voysey, PwC's head of advisory in the region, notes Russia and its former satellites are very different from Asia, where he previously worked.

In the CEE region, engineer-led companies previously focused on production are still learning to serve consumers. So they need advice on becoming globally competitive, building organisational structures and management, and developing governance and strategy. Rising labour and energy costs are forcing businesses in this region to become more efficient, and so is international competition.

Tony Poulter, PwC's global head of consulting, believes his firm's advice is increasingly becoming strategic. Nevertheless, the kind of operational issues with which many Russian companies are grappling plays to the strengths of the Big Four audit and advisory firms.

Brazil, another focus of expansion by consulting firms, offers a different environment, in which relatively sophisticated companies are simultaneously serving demanding consumers and seeking global development.

This ties in with a need identified by Aidan Brennan, global head of performance and technology at KPMG, that is common to global or globalising clients wherever their roots. The reason the Big Four audit and advisory firms are expanding fast in emerging markets, he argues, is that "it is driven by a big market shift. There is genuine market demand for the Big Four to be in this space."

The global presence and multidisciplinary nature of these firms, which embraces expertise in tax, regulatory issues, valuations and transactions as well as accounting, enables them to provide advice that is becoming more necessary in a complex world, says Mr Brennan.

"If you are in a large global corporation and thinking about how best to manage your tax ... today you need to look at the global supply chain. Where should you do your logistics planning, your commodity trading?" And where should companies do their R&D?

Partners in the federations of national consultants that make up the Big Four must also ponder where limited resources will achieve the best return. But practice leaders are adamant there are few arguments. Whether in federations, global partnerships or quoted companies, consultants are at the cutting edge of globalisation. To thrive, their firms must build in emerging markets. As Bain's Mr Meehan says: "It is client-driven."

Accenture was paid by China Mobile according to the number of new clients attracted and retained AFP

Acquisition brings critical mass in Brazil

Case study
Capgemini

Ross Tieman looks at a bold move by the European group

The €233m acquisition by Capgemini Group of a controlling stake in CPM Braxis, a Brazilian IT services company, offers multiple lessons about both the globalisation of consulting, and of consultants.

Adding 5,700 CPM Braxis employees to the 800 Capgemini staff already in Brazil will make the country Capgemini's sixth-largest national operation and give it critical mass in the biggest economy in Latin America.

But the deal is as much about the future of Brazil's leading companies as it is about the nation's economy, says Cyril Garcia, Capgemini's strategy director. And the timing is critical in terms of where both lie on the economic development curve.

Brazil, says Mr Garcia, has a population of 190m and a well-diversified economy. The financial sector is big and increasingly sophisticated. Telecoms companies, already rolling out triple-play broadband (combining high-speed internet, phone and television) offers, face increasing competition. The minerals sector is powerful, and aircraft and food manufacturing are increasingly world class.

This provides not just strong national growth for the kind of IT services that CPM Braxis supplies, but a need among its clients for increasingly sophisticated strategic and operational advice.

Brazilian companies have to overcome challenges ranging from customer relationship management in finance and telecommunications, to finding the international knowledge and services they need to become global players.

So in buying 55 per cent of CPM Braxis, Capgemini, with its 106,000 employees in 35 countries, is buying skills, contracts and a client portfolio for its consulting arm. "Big Brazilian companies are looking for growth both inside and outside Brazil and partnerships outside Brazil," Mr Garcia says.

Capgemini has developed a blended consulting model, as has Accenture, that rivals seek to emulate, is well-placed to plug this emerging need into its global advisory system.

Intercontinental deal: José Luiz Rossi, chief executive of CPM Braxis Group (left), and Paul Hermelin, chief executive of Capgemini Group Thierry Hugon

Pierre-Yves Cros, chief executive of Capgemini Consulting, highlights the company's three-strand approach to providing sophisticated business advice.

Clients want to talk to nationals in the countries where they operate, he says, because they understand the cultures and languages. They also want advice from flown-in world-leading experts. But the ace in the pack, for Capgemini, is its ability to provide sophisticated consultancy and technology muscle, either in situ or online, from its 40,000 staff in India.

Moreover CPM Braxis, an entrepreneurial business already well positioned in the US market, can start to deploy more of its resources across the Capgemini network.

For Mr Garcia, the key to successful expansion in emerging markets is to find excellent local managers and "give them freedom and recognise their understanding of their market".

But every emerging market is different, he insists. Although Capgemini sees expanding in China as a priority, and it has an eye open for acquisitions, there are few companies such as CPM Braxis for sale.

Ambitious Chinese companies might hire help to expand overseas, he says, but building an in-country consulting operation led by Chinese nationals will be a long-term project.

Having €233m in spare cash to buy Braxis is one advantage of being a European listed company. But investing long-term in building a faraway business from scratch also takes deep pockets.

'Quick but measured' approach to growth in the Middle East

Case study
PA Consulting Group

Andrew Baxter looks behind the UK firm's expansion in the Gulf

"Quick but measured" is how Andrew Hooke, chief operating officer of PA Consulting Group, describes the London-based firm's push into the Middle East. From virtually a standing start three years ago, PA now has four offices and more than 50 staff based permanently in the region, serving the Emirates, Saudi Arabia, Qatar, Oman and Bahrain.

The firm now derives about 6-7 per cent of its £400m annual revenues from the region, and Mr Hooke sees no reason why this should not reach 25 per cent in the medium term, even as other regions also grow.

PA has had to be realistic in deciding where to expand, and how to do it. As a unitary company rather than a global federation of country-based partnerships, it can make decisions quickly, says Mr Hooke. "The decision-making processes here are more like a company than a partnership," he says. "It is largely up to a small senior management team to decide whether we enter this market or bid for that piece of business."

The trade-off, he says, is that decision-making in a federated consultancy will go through a more formal process, take longer and any initial investment that results might be larger and more structured.

PA's size creates constraints, too. "We have to be focused and limited – we can't go everywhere," says Mr Hooke. "If we are entering a new market, it is usually as a greenfield investment, whereas other firms may have something there already – for example, an auditing arm."

Another important principle for the firm is to expand geographically on the back of sold work, building the infrastructure behind that, rather than sending someone out to a region with a pot of money and giving them, say, three years to make a go of it. PA's approach is "a prudent way of managing a business development process," says Mr Hooke. "We are a significant company but there are others with bigger war chests than we have."

All these factors played a part in PA's decision to expand in the Middle East. Along with many other European and US consultancies, its traditional markets were maturing even before the financial crisis. One obvious new market, China, was largely discounted because of worries about how quickly PA could get payback but also because, as Mr Hooke puts it, "it struck us as a single bet".

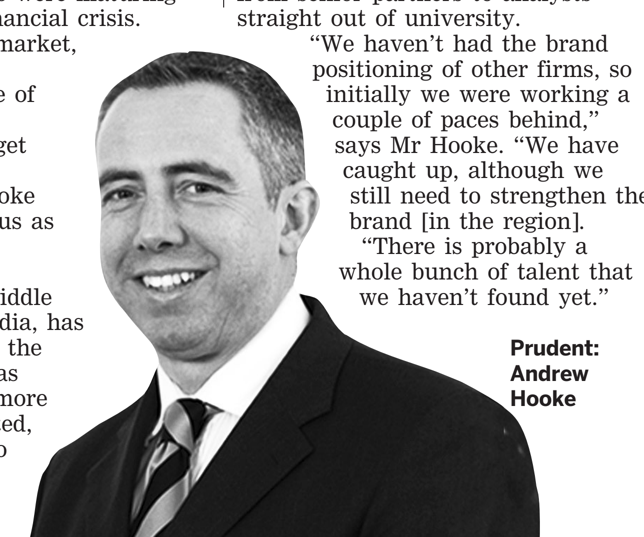
Targeting five countries in the Middle East, as well as India, has spread the risk. In the Emirates, Dubai has developed a little more slowly than expected, causing the firm to refocus quickly on Abu Dhabi, but Saudi Arabia has been the "one that has taken off", says Mr Hooke. Big projects such as work with EADS on Saudi Arabia's new border control system are playing to PA's technical strengths in areas such as identity management and biometrics, but also draw on its expertise in organisational development and change.

As Mr Hooke says: "We're trying to pick areas of capability that are genuinely exportable." What it does not want is a "fly-in" firm where Middle Eastern business is served predominantly by experts brought in from Europe or the US for specific projects. That, says Mr Hooke, is not the way to build trust, which he believes is "absolutely fundamental" to success in the region.

PA's medium-term plan is to have a 50/50 mix of expatriates and locally hired Arabic-speakers working in the region – and it is recruiting everyone from senior partners to analysts straight out of university.

"We haven't had the brand positioning of other firms, so initially we were working a couple of paces behind," says Mr Hooke. "We have caught up, although we still need to strengthen the brand [in the region].

"There is probably a whole bunch of talent that we haven't found yet."



Prudent: Andrew Hooke

Leavers look for way back in as others ponder an exit

Recruitment

Rod Newing on supply and demand in the jobs market

Aware that they cut back too heavily in the last recession, from 2001-2002, consultancies worked harder to retain their talent this time round. However, most firms are now hiring again.

"About two and a half years ago, when things started to bite, a number of consultants left the profession," says Richard Draper, managing director of Rees Draper Wright, a search firm specialising in the management consulting sector. "They took line roles within industry for stability, even though most took pay cuts."

These former consultants are now seeking opportunities to return to the profession, to benefit from the higher salaries and a greater variety of work. They are especially attractive to consultancies, having an ideal combination of consulting, commercial and sector experience.

The UK Management Consultancies Association's last half-yearly report found that 67 per cent of management consulting firms had seen consultant numbers rise in the first six months of the year. Only 35 per cent of firms were operating with spare capacity during the first half of 2010, comparable with pre-recession figures and down from 63 per cent during the same period of 2009.

Many new hires from the commercial sector will have no consulting experience, and identifying those with consultancy potential is tricky. Adrian Edwards, an advisory partner at Ernst & Young, says the areas that people from industry find most challenging are the ability to build relationships with a diverse range of clients and understanding the consulting process.

"These skills are developed through being immersed in the consulting industry," he says. "It is much less about technical skills, which can be learned, and experience and much more around attitudes and style, which can only be refined."

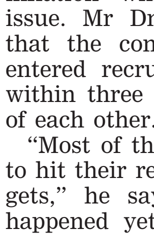
Mr Edwards says candidates can be successful consultants if, as well as being able to build rapport with clients, they enjoy facing new challenges and learning about new industries and client cultures.

New technologies are increasingly coming into play and Accenture is just one firm that has sourced quality candidates through social networking sites, such as Facebook, LinkedIn and Twitter. "People are the heartbeat of the company, so we need to share that space and be part of those conversations, to build long-lasting relationships with potential candidates," says Suzy Style, the firm's head of recruitment.

"While employee referrals and alumni networks remain valuable sources, social networking sites provide further insights to a candidate's profile to help identify top talent, whether in technology skills, sector expertise or softer skillsets, which are harder to determine directly from résumés."

As the firms fight to offer similar opportunities to the same candidates, there is a danger that money will come into play and salary inflation will become an issue. Mr Draper explains that the consultancies all entered recruitment cycles within three to six months of each other.

"Most of them are failing to hit their recruitment targets," he says. "It hasn't happened yet, but, despite reluctance on my clients' part, we will start to see the laws of supply and demand slipping in."



Consultancy is rarely seen as a job for life, says James Callander

Of course, the best source of well-rounded consultants has always been competitors, so retention policies are becoming important again, especially as the commercial sector opens up again. Indeed, the Consultancy Salary Survey 2010 from FreshMinds Talent, a recruitment consultancy, reveals that 95 per cent of consultants would consider a move out of consulting and 36 per cent dream of running their own business.

For consultancies wanting to retain staff, the survey revealed that top reasons for remaining were the calibre of colleagues (72 per cent) and becoming expert in a sector (69 per cent).

"Very few management consultants are committed to consulting as a job for life," warns James Callander, managing director of FreshMinds Talent. "This desire to leave the profession is not driven by money, because work/life balance (67 per cent) was the top reason to leave. Many consultants are having their heads turned by the lure of industry or working for themselves. As the global economy improves, and candidates begin to think more about their personal and career priorities, the industry may well have a retention crisis on its hands in years to come."

David Owen, head of consulting at Deloitte, agrees that the best response to retention is to fulfil consultants' objectives. "They are looking for professional fulfilment, variety of experience and a degree of unpredictability," he says. "It is our responsibility to remain attractive to the people who joined us and have been trained up by us – and have been put to very good use by us."

According to Phil Sheridan, UK managing director at Robert Half, a recruitment consultancy, consultants that have stayed with their firm, despite increased workloads and frozen remuneration, may be exploring new employment opportunities. Consultants who feel valued and challenged will be less likely to pursue other career opportunities.

"Voluntary turnover has been very low, but is picking up substantially now, because consultants are getting phone calls from people like myself offering them alternative opportunities," admits Mr Draper.

"There is a lot of movement – and 'musical chairs' between the Big Four. That will continue until those organisations start to address some of their longer term retention strategies, which they put on hold. However, good candidates will always find a home and the consulting sector is as attractive now as it has ever been. It is an interesting time."