

TOPCONSULTANT

The growing business of good advice

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THE latest figures from the Management Consultancies Association (MCA) show that growth in the sector continued throughout 2006, with member firms earning £5.4 billion from management consultancy last year. Within that figure there are wide variations in individual performance, leading to a more cautious outlook this year.

In contrast with previous years, the MCA report does not simply record members' fee income, but looks purely at the management consultancy element: "Our members do systems integration, outsourcing and managed services and offer lots of other skills," says MCA chief executive Peter Hill. "We've gone back to first principles to try to stay true to the base product of management consultancy."

This is part of a wider project to help clients gain a better understanding of the value of consultancy, whether in a purely advisory capacity or in implementation work such as change management or project and programme management. Overall, client levels of satisfaction with consultants is high — most

Consultancies are continuing to prosper despite the need for more quality staff

clients say they are "satisfied or very satisfied" with their consultants, with only a tiny proportion expressing outright dissatisfaction. "Getting things done more quickly" is seen as the most valuable contribution consultants make by clients.

"Our first step has been to take a very qualitative approach to get some feedback on the value of consultancy from the end-buyer," says Hill. "But there is the potential for the client to understand better what the real service of a management consultant is."

Hill says the MCA is continuing to research the topic, and hopes to be able to produce more quantitative feedback very soon.

The main constraint on consultancy growth continues to be staff shortages. Despite a tight recruitment market, MCA mem-

bers managed to increase the number of fee earners by 26 per cent to just over 18,000. Fee levels have also remained flat, limiting firms' abilities to pay increased salaries.

"All the anecdotal evidence is that growth has come from increased utilisation and that firms don't feel they can increase fees," says Hill. "It's getting more difficult to get the right quality of individuals".

This constraint has led firms to look for avenues for growth, notably by acquiring other consultancy firms.

According to Paul Collins, managing director of Equiteq, which advises both buyers and sellers of consultancy firms, the market experienced a surge in 2006, and although activity has slowed in the first quarter this year is still high compared to four years ago.

Recent high-profile deals include the acquisition of Impact Plus by Hitachi, and Cornwell Management Consultants by Serco, but these are just the tip of the iceberg.

"For big groups it's what we call 'tuck-in acquisitions' of smaller consultancies," says Collins. "It's easier to integrate a £4-5 million firm. The cost may be greater, but the long-term chance of success is better."



Back to basics: Peter Hill, chief executive of the Management Consultancies Association, wants clients to better understand the value of consultancies

According to Collins, competition is strong for UK firms, which have recently accounted for nearly half of all European acquisitions.

"There are so many new entrants, not just the Indians and the Chinese but Nordic companies and lots of other people we've never seen before," says Collins. "The US consulting industry is also looking to increase its presence in Europe. "Competition is also coming

more from the private equity industry, which has only recently seen consultancy firms as targets. Private equity has realised that even though the profit streams might be "lumpy", consultancies are fantastic at generating cash, so they can set up highly leveraged deals and pay off the debt very quickly."

With consultancy firms trading at record ratios this might be an ideal time for owners to sell and achieve a value that might be

unattainable in a couple of years' time, even if they continue to grow their firms.

It could be a good moment for consultants to join small, fast-growing firms which may be future acquisition targets.

"You could enjoy the best of both worlds," says Collins. "You could get the equity benefits from the small consultancy, and then the career growth opportunities with the larger firm that acquires it."

IBM has the strength in depth to stay a market leader

IBM was for so long the world's biggest IT company that it might be a shock to be told it is now the world's biggest management consultancy. But the push into services in the Nineties gained such momentum from the acquisition of PwC's consultancy arm that IBM's business consulting sector is not only a leader in its own field, but is leading IBM into a bright new future.

"People still talk about IBM as a technology firm, but our capability is so much broader than that," says Bridget van Kralingen, general manager of IBM Global Business Services for Northeast Europe. "We create value for clients, both in the business space and in the interface between business and technology."

As a consultancy, IBM now covers the widest set of disciplines — from high-level strategy through to application management, with access to a broad range of technical skills and resources from the rest of IBM's business.

"It's exciting to be able to go from strategy work to the deep operational execution and delivery," says Van Kralingen. "It's very satisfying to be able to offer a consultant the opportunity to see the solution to a problem all the way through to execution."

The consultancy can also draw on the firm's long-established brand values. "We have great client access and clients take you seriously," says van Kralingen. "There's a sense of expectation, and permission from the client to give your point of view really helps them drive change. Global Business Services is now becoming the heart of IBM's business."

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This does not imply that the consultancy side of the business is growing away from the company's technology strengths. "Business solutions are led by IBM consultants who work across IBM's entire capability to create unique solutions for our clients," says van Kralingen.

"A lot of that comes from the strength of the colleagues you work with — we have strong connections to our research and development teams as well as our other service lines and technical teams."

This, says van Kralingen, is one of the key differences of working at IBM. "One of the first things you notice is the range of capability and intellect. Not everyone is an MBA. We have PhDs and other people deeply rooted in research that you interact with, as well as a range of skilled consultants with deep industry or content knowledge."

This integration not only helps IBM to deliver unique and innovative solutions, but increases the speed with which it

can do so. "People no longer create a strategy then think about how to execute it," says van Kralingen. "There's now a much shorter term and more interactive cycle. We can move much faster through all the paths of change."

Having access to IBM's global delivery network also helps speed execution.

"There's very large client demand across all service lines and industries," says Gary Kildare, vice-president for Human Resources, IBM Global Business Services, Northeast Europe. He adds that in the UK there is a particular need for consultants with industry skills and experience, as well as in SAP, strategy, supply chain, business and technology integration.

As a result IBM is looking for recruits across all its consultancy offerings. Kildare says IBM now recruits many more mature hires, whether from consultancy or industry than it does graduates. "There are a lot of areas that are very hard to find, such as the

enterprise architects who understand both business and technology, as well as project and programme managers, he says. "We spend a lot of time developing those skills."

One of the things Kildare believes distinguishes IBM is the quality of internal support structures and career development.

"Every consultant has a mentor whose job it is to make sure they are developed," he says. "IBM is a very meritocratic organisation, and that meritocracy is also quite simple: the people who move fast are those who can lead and do great things for their clients."

Kildare also points out that while IBM is a large firm, much of the work is carried out in small teams and practices.

"It's not a place where you get lost," he says. "But on the other hand you can always call on the help of colleagues. IBM offers you everything that's possible working for a consultancy plus the resources of a premier division technology company."