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Change ripples through fish tank

Firms are finding that it is not just clients that must adapt to disruptive forces, writes *Andrew Hill*

Edwin Booz is said to have invented management consulting in 1914. If Booz & Company is absorbed by PwC, the consulting firm that bears his name will only just get to celebrate that centenary as an independent partnership. Booz partners will vote on the proposed deal next month. But Cesare Mainardi, the firm's chief executive, has already declared that he expects the combined company to "reinvent management consulting for the next century".

That is a bold claim, not only because betrothed consulting firms have a habit of separating at the altar (Booz and AT Kearney failed to consummate their planned merger in 2010, for instance) but also because predicting the shape of consulting is particularly hard as the industry looks to the post-crisis era. Consolidation is in the air, despite the ill omens of past unsuccessful deals.

Deloitte bought Monitor, the strategy firm co-founded by Harvard management guru Michael Porter, in January after it had slipped into bankruptcy. Partners of Roland Berger, the German consultancy, are due to decide next month whether to stay independent.

One consultant forecasts that his sector may just be acquiring the attributes of other, more mature industries – with participants becoming larger and more industrialised. He is only half right. Some consultancies will get bigger but that does not necessarily mean there will be fewer in future.

One of the threats to established groups comes from smaller, more specialised boutiques, snapping up parts of the available business that their bigger competitors disdain. Individual "jobbing consultants" – often alumni of bigger firms – pose another challenge, particularly in some areas where consultants compete aggressively on price, such as the UK public sector.

Clay Christensen, one of the world's most sought after experts on disruptive innovation and himself a former consultant with the Boston Consulting Group, made the industry sit up last month with an article in Harvard Business Review (HBR) in which he, Dina Wang and Derek van Bever wrote: "The same forces that disrupted so many businesses, from steel to publishing, are starting to reshape the world of consulting."

Following the Christensen model, as laid out in his book *The Innovator's Dilemma*, the best way to prevent such disruption is not to retreat to higher-margin business and hope for the best – that just allows challengers to get stronger as they feast on the abandoned lower-margin business – but for incumbents to try to disrupt their own core business.

One example is McKinsey Solutions – analytical tools that clients can embed in their companies, even after McKinsey's consultants have gone home. The strategy consultancy sees these tools as complementary to the core consulting work but they make up a fast-growing share of what the group offers its clients.

On the surface, "productisation" – to give the trend the ugly name that consultants would give it – seems to threaten the position of the professionals who used to win business on the basis of "educational pedigrees, eloquence and demeanour", in the words of the HBR article.

"Clients understand the world has changed in terms of how things get produced, so the idea that I need to have 10 to 20 [consultants] in their office – we see less and less of that logic," says Sander van't Noordende, group chief executive of Accenture management consulting. "They don't expect a bunch of smart people to show up and say 'What do we need to do here? Let's start figuring it out.'"

Similarly, Andy Maguire, senior partner at BCG and head of its London office, says: "The day of the generalist 'smart' consultant, if there ever was one, doesn't have long to go."

If smart people are themselves saying that smart people are on the way out, what future is there for the traditional management consultant? The clue is in Mr Maguire's use of the word "generalist" to describe the breed of adviser now heading for

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Business of Consulting

Shake-out due in China after heady growth

Competition

Smaller homegrown advisers will find it hard to survive, writes *Lucy Hornby*

When the first small partnerships tried to register themselves as consultants in China in the late 1990s, the Communist-ruled country did not even have a category for "management consultant" as a type of business.

Since then, Chinese consultancies have done a little too well. There are now hundreds across China, ranging in size from a few individuals to a dozen firms that have grown to about 1,000 people each in just a few years.

By contrast, McKinsey & Co employs 18,000 people globally and 500 researchers and consultants in Greater China.

Less than two decades after the sector began, China's homegrown consultancies are positioning themselves for a shake-out that will leave only the strongest standing. Firms compete ferociously for contracts but too often fail to give clients any more than superficial advice, a development that industry veterans say is detrimental for everyone.

"They end up recruiting people wholesale, and then putting in very low bids to get business, so that quality drops and clients are reluctant to pay," says Liu Jun, senior partner at Bexcel Management Consultants in Beijing. One of the earliest consultancies in China, Bexcel has expanded slower than the rest of the industry, and now numbers about 130 consultants and researchers.

Undaunted, another early entrant, Alliance PKU Management Consultants now has about 900 employees and plans to expand 10-fold, targeting 10,000 employees within the next five or six years. That is a

Liu Jun: local market 'unique'

management challenge even for a management consultant, acknowledges senior partner Fan Yong, but he says it is necessary to stay competitive in the coming shake-out.

"In the next 10 years, the degree of consolidation in the industry will definitely rise. A few big consultant firms will emerge, and it will be really hard for the smaller ones to survive," Mr Fan says.

Scale is needed if the Chinese consultants want to continue to serve the biggest Chinese corporations, many of which already operate in dozens of countries.

China's first wave of outward investment often stumbled against local labour laws, environmental regulations and other issues that companies were unaccustomed to dealing with at home.

The country's huge state-owned enterprises now rely on feasibility studies before taking on international projects, and private companies are increasingly likely to do so too, says Ken Wang, who heads RBC Capital Market's Asia investment banking business.

Alliance PKU has dipped its toe in the water with case studies of investment policies in Sri Lanka, Ethiopia and Kazakhstan, but it is clear the sector as a whole needs much greater capacity to keep pace with China Inc's outward push.

Some sectors, such as auto manufacturers, have been quick to employ foreign consultancies that combine global reach with Chinese staff, but local consultancies have found a niche with mid-sized Chinese outfits, says Adeline Pairault of Capgemini Consulting, which also offers services in the country.

Although they model themselves on McKinsey, the services offered by Chinese firms vary. China has restricted banks from lending to property developers and other private businesses for more than three years, so some Chinese consultants have become experts in advising their clients on the shifting sands of grey market financing.

Private bosses also turn to consultants for advice on how to pass on their business to the next generation.

Other Chinese consultants specialise in due diligence, warning clients off acquisitions or business partners with red flags that might have been missed by foreign firms used to a stronger regulatory environment. "Chinese society has a lot of unique characteristics. Not only the culture, but also the circumstances of its development, the political backdrop, and the set-up within companies. So a purely Chinese firm has some advantages here," says Bexcel's Mr Liu.

Chinese consultancies also have some uniquely Chinese problems. State-owned clients are big enough to generate a lot of business, but they are notoriously reluctant to pay for services.

The smallest consultancies often bid low to win work, but then struggle to get anything beyond the client's initial deposit. Alliance PKU requires its clients to pay at each phase of the project to ensure there are no disputes at the end.

"The pay rate on our projects is very high. We're at 95 per cent. This is something we are very proud of," Mr Fan says.

Additional reporting by Zhao Tianqi

'Big data' work keeps hackers out in the cold

Information security

Stephen Pritchard on an opportunity that turns a potential liability into an asset

Big data is big business. Business intelligence and analytics, or "big data", projects have formed a rich stream of income for consulting firms over the past few years, as clients have sought value in the large quantities of information collected in their day-to-day activities.

But big data can also pose some significant risks to client businesses and the consultancies that handle it.

The cost of losing data is high, and rising. The latest Cost of Data Breach Study, carried out by the Ponemon Institute and sponsored by Symantec, a security software group, found that the average cost for a lost data record is $188 in the US, and $199 in Germany.

That cost includes regulatory fines, notifying affected customers, investigations and putting right the causes of the breach. The total average cost, to a US company, of a data breach in the year to March 2013 was $5.4m.

Several factors are pushing up the cost: more, increasingly sophisticated cyber attacks, greater regulatory attention and, in countries such as the UK, higher fines.

But companies are also gathering and storing more data. This brings its own risks, as well as a potentially important stream of new business for management consulting firms.

Clients may have done most of the work extracting insights from data but realise they have not secured them as well as they might have, says Stephen Bonner, partner in the information protection and business resilience practice at KPMG. "But we also see companies that are managing the security but don't have the insights [they need] from the data."

By gathering larger amounts of information in one place, organisations present a more attractive target to hackers.

Security experts warn that cyber criminals are increasingly targeting such big data stores. "A large amount of valuable data is a natural honeypot for threat actors," warns Vikram Bhat, a principal in the information and technology risk management practice at Deloitte.

By aggregating information, businesses might also, perhaps unwittingly, take it outside the secure perimeters that were designed to protect it. Data analysis and business intelligence teams are not always schooled in information security, whereas managers of traditional data warehouses typically see security as one of their core responsibilities.

The problem can be made worse by transferring data to third parties for analysis, or sharing it with customers or suppliers. Again these organisations might not have sufficient security safeguards.

Even smaller consultancy firms, brought in to carry out advanced analytics on data, may not fully understand its security implications.

"A lot of big data analysis is about taking information from different systems and putting it together," says Guy Bunker, senior vice-president at security vendor Clearswift and spokesperson for the Jericho Forum, a security industry body. "If you think there is value in that, then so does someone else."

But a second, and potentially much greater, security challenge around data is only now starting to be appreciated by organisations that gather data, and the consultants that advise on analysing them.

Combining different data sets and records lies at the heart of big data projects. But the resulting mix can be both volatile and dangerous – a phenomenon being called "jigsaw" or "mosaic" identification. The privacy ramifications, in particular, can be far reaching.

Peter Lumley, a business intelligence expert at PA Consulting, warns: "You can unwittingly make data personal, when you think they are not, with details of individuals. Once you start to work with data you can work out where people live or their names. That is one of the greatest issues around big data."

Etienne Greef, managing director of Securedata, a specialist consultancy, agrees: "Small pieces of data in their own right aren't interesting. But when brought together, they reveal a lot about a person: their preferences, movements and their behaviour in general. When companies start using data and correlating this together with public and private informa-

> 'If you think there is value in [your data], then so does someone else'
> **Guy Bunker, Clearswift**

tion, pictures emerge whose security implications and risks aren't clear just yet."

And, some experts warn, organisations are sometimes too casual with the resulting data mix. "People should be treating data like radioactive material," says Wendy Mather, lead security researcher at analysts the 451 Group. "Do we need to handle this? If so handle it for the minimum amount of time, and put it away when it's not being used."

This situation is, however, opening the door for management consultants to combine advice on how to analyse business information with help on how to secure it – and also, how to set up a rigorous management process to ensure data do not move from being an asset to a liability.

"The threat is largely down to how clients manage massive volumes of data," says Mark Brown, a director in risk management in the UK practice at EY.

"One thing we advise clients to think about is how long they keep data. If you don't refresh or delete data, are you hoarding them in a data warehouse? There is a time when data move from having a positive to a negative impact."

For consultants and their clients, deciding which information to keep, and what to delete, can be as vital as the data themselves.

Advisers in demand as high street big names suffer

Retailing The upheaval in the stores sector presents a big opportunity, but clients are driving a hard bargain, writes *Rod Newing*

The retail sector is undergoing a historic upheaval. The rise of internet shopping threatens bricks-and-mortar operations; traditional high streets are losing business to out-of-town malls; a severe recession is reducing the size of weekly shopping baskets; and many high street names are disappearing.

However, this gloom does not extend to the consultants hired to give advice to retailers.

"The state of the global retail consulting market is changing, because of the upheaval in retailer business models," says Steven Skinner, retail practice vice-president at Cognizant Business Consulting. "Gone are the days of plugging in large business systems and building large data warehouses.

"The future of retail consulting focuses on helping retailers adapt to a rapidly changing customer dynamic, which is driving systemic business model changes."

According to SourceforConsulting, which provides information about the management consulting market, the global retail consulting market was worth $4.7bn in 2012, up 12 per cent on the previous year. This compares with a growth rate of 7 per cent in the total annual consulting market.

The growth is even more pronounced in the UK, where the Management Consultancies Association reports an increase of 25 per cent from 2011 to 2012. The retail sector accounts for 5 per cent of overall consulting fee income and three-fifths is derived from outsourcing and information technology advice.

Helen Mountney, a member of the global leadership team at Kurt Salmon, a specialist retail consultancy, points out that much retail consultancy involves cost reduction and operational improvement. "These services are resilient, even when the market is struggling," she says.

Growth in retail consulting over the past 12-18 months is largely driven by the natural extension of multi-channel retailing, where customers have a choice of shops, internet, telephone or mobile, into "omni-channel" retailing. This is where customers can move freely between channels as they go through a purchase process.

Independent research* for LCP Consulting, which specialises in the supply chain, found that retailers in the UK and US are investing 3 per cent of annual turnover in moving to an omni-channel operating model. Ninety per cent of respondents said that it would require a significant re-engineering of the whole business.

This involves a wide range of consulting support, including digital strategy, reconfiguring business processes and integrating with back-end business systems. "It is massively disruptive to every department, with considerable amounts of change management required," says Steve Davis, retail consulting partner at JDA Software. "The retailer's very survival is on the line, because the customer is demanding a seamless experience."

One problem that consultants have always faced in the retail sector is price sensitivity. The larger retailers expect to exert pressure on all their suppliers to keep prices down by becoming more efficient.

However, some forms of consultancy require spending considerable time working face-to-face with client staff to bring about change, which does not lend itself to efficiency improvement or automation.

"Retailers are extremely adept at negotiating with suppliers, because they do it all the time," says Ms Mountney. "So it is probably one of the most price-sensitive areas of the consulting market."

Clicks and mortar: stores such as those at Westfield Stratford City shopping centre in London are moving into 'omni-channel' retailing Shaun Curry

She says some of the more traditional consulting services have become highly commoditised with low fee rates, such as big systems implementations. Kurt Salmon finds fee rates to be more resilient in advisory-orientated consulting.

Fiona Czerniawska, co-founder of SourceforConsulting, says that retail clients want consultants to demonstrate tangible value, as they are used to "piling it high and selling it cheap" through discounting and wafer-thin margins.

"In that world, they just don't 'get' the kind of expense that might be involved in a consulting project," she says. "The big challenge in retail consulting is being able to take advantage of all this growth in a way that is profitable."

SourceforConsulting sees no sign of prices increasing, except in very small specialised areas.

Ms Czerniawska recommends that consultants should try to deliver more efficiently, by using standard processes, bringing a degree of automation and improving their back office functions.

"They need to learn from their own retail clients," she says.

It seems that in the past 12-18 months, clients have been willing to supplement their consultancy work on cost-cutting, efficiency improvement and outsourcing. They now want to ensure that they are fit to reap the benefits of economic recovery, with strategic work to improve their customer experience and expand into new areas.

"Retailers are open to expansion again," says Ms Mountney. This new source of work also has the benefit of reducing the consultancies' dependence on their biggest market, financial services, partially helping them to rebalance their businesses.

"Failure to understand and embrace these changes will leave today's consultants behind in the new consulting arms race," concludes Mr Skinner.

"Our clients are changing, but more importantly, their customers are changing, so consultants must change even faster."

**"Retail Supply Chain Management: The Omni-channel Revolution", details at info@lcpconsulting.com*

Change ripples through the consultancy fish tank

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extinction. Consulting firms are actively hiring or training specialists to satisfy the ever more sophisticated view of what clients are prepared to pay for.

The usual route of taking on bright MBA graduates straight from business school remains popular – indeed, experienced consultants agree that the quality of incoming graduates improves from year to year – but firms are also hiring laterally, boasting about their ability to attract, for instance, medical doctors (useful in winning lucrative business from a healthcare industry riven by regulatory change), digital and data technologists, and seasoned oil and gas executives.

At the same time, existing consultants are learning new skills that they can marry to their traditional strengths as rainmakers bringing in and retaining big clients.

Bob Bechek, worldwide managing director of Bain & Company, says: "The bar keeps rising in terms of the sophistication of what we and our direct competitors are able to do for our clients and what our clients expect us to do." He adds that the "expectation that a consulting partner will be able to mobilise for clients across 20 countries . . . now feels quite routine".

"If you're a great partner and you have a great client relationship, as long as you can develop the expertise, things haven't changed very much," adds BCG's Mr Maguire.

"We've got much better at not doing first-principle stuff . . . and saving the brainpower for the value-added part of the problem."

Where bigger consultancies see gaps in their portfolio, they are filling them through the purchase of specialist companies, or by forming joint ventures that bring expertise to bear from a specific sector, a policy that Accenture's Mr van't Noordende describes as "build, buy or borrow".

A typical example is his company's Omnetric joint venture with Siemens, aimed at serving the utility industry to improve energy grid reliability and efficiency. Deloitte recently bought a web developer and a social media marketing agency as it seeks to tap the budget wielded by big companies' chief digital officers. IBM – which itself absorbed PwC's consulting practice more than a decade ago – is also looking to appeal to the "digital front office" by selling products and services to marketing, sales and customer service executives.

In one sense, these moves are a tribute to the smaller, more specialised companies that critics believe will disrupt the established consulting firms. "We are seeing the beginnings of a shift in consulting's competitive dynamic from the primacy of integrated solution shops . . . to modular providers, which specialise in one specific link in the value chain," write Mr

Christensen and his co-authors.

The essential message to the incumbents is that they should not take for granted their lead in a fast-developing sector. Large partnerships are far from immune from dysfunction and even disintegration.

In the early 1990s, PA Consulting Group came close to collapse before remaking itself as a distinctive specialist consulting firm, developing products and innovative manufacturing techniques alongside its clients.

Jon Moynihan, who retires as PA's chairman at the end of this year having led the firm back from the brink, points out that at one point in the 1970s, it was one of the largest consultancies in the world. "This firm thought that doing good work for clients was enough," he says. "It is essential but it is not enough."

NY rattles sabre after 'violations'

Corporate governance State takes a determined line with consultancies, says *Kara Scannell*

Consultancies have had one of their most dismal public-relations years in decades with high-profile regulatory run-ins that have stoked calls for greater oversight for the first time.

New York state's Department of Financial Services (DFS), a banking and insurance regulator for financial institutions registered in the state, imposed a code of conduct on any consultant seeking to work for a bank after finding "misconduct, violations of the law, and lack of autonomy" in Deloitte Financial Advisory Services' review of Standard Chartered's anti-money laundering programme.

The Office of the Comptroller of the Currency, the regulator for federally chartered banks, is set to unveil guidance for consultants hired by banks as part of enforcement settlements after a $2bn debacle involving a review of mortgage services foreclosure practices. The OCC is scheduled to release guidance this month that will highlight the need for independence, expertise and resources, a person familiar with the matter says.

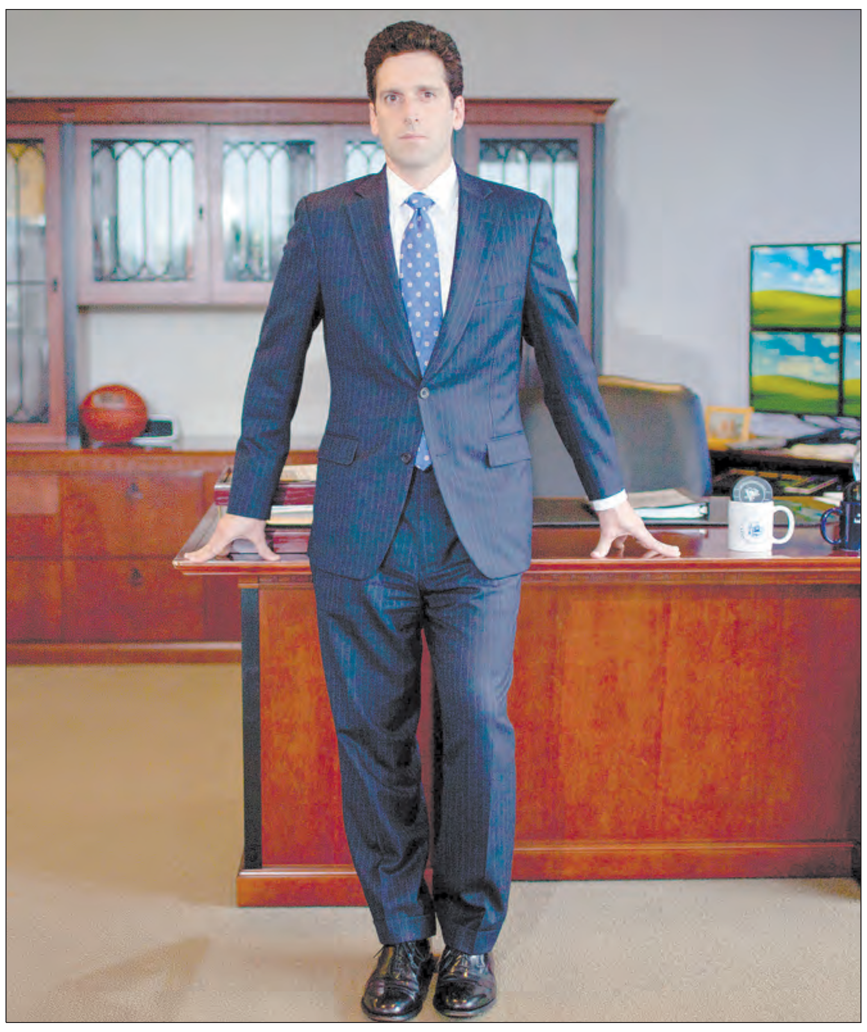
For the first time, the "Mr Fix-its" that banks hire to win the confidence of regulators are the ones in need of being fixed. Consultants, unlike accountants or banks, are largely unregulated. There is no self-regulatory industry body and no formalised or public guidelines for the industry.

Some consultants say they welcome public guidance to define standards of independence since it currently varies by regulator and is not disclosed.

"There are about 1,000 different regulatory standards and not one of them is committed to writing," says one consultant at a prominent firm. "It's really intriguing to me that one will ask stuff about past employment relationships and another one won't ask a single question about it."

"There's an accountability gap," said Benjamin Lawsky, superintendent of DFS, in a speech last week. His office has broadened its investigation into consultants and has sent subpoenas to PwC and Promontory Financial, people familiar with the matter say.

"The problem we found is there are a number of structural impediments in the ways monitors and consultants are used by the banks that really hinders their independence," Mr Lawsky said.



Tough line: Benjamin Lawsky has introduced a code of conduct Bloomberg

"When a monitor or consultant gets hired to go into a bank to figure out what went wrong and help clean it up – where do they usually work? They work inside the bank. Who hires them? Guess what – the bank. Who pays them? The bank. If they want future business where do they have to worry about their reputation? With the banks."

Mr Lawsky looked to a 92-year-old state banking law to do something about it. Under the law, DFS has to approve anyone seeking access to confidential bank data.

In the first exercise of that authority this June, DFS suspended Deloitte for a year from soliciting for new consulting work from financial institutions that it regulates and instituted a code of conduct that would apply to any consultant seeking to work at banks registered there.

Deloitte agreed to the suspension and last week said: "Deloitte Financial Advisory Services is pleased to be working productively with the DFS to establish best practices and procedures that are ultimately intended to become the industry standard for all independent consulting engagements under the DFS' supervision."

Under the code all past work would need to be disclosed, monthly meetings with regulators would have to be held, and a final report would be needed listing all staff from the bank who commented on the consultant's report and any recommendations they made. Any disagreements between the bank and consultant would also have to be disclosed to DFS.

Mr Lawsky said he hoped federal regulators would follow suit, but it remains to be seen whether there is enough interest to regulate the industry at the federal level.

So far the potential changes appear to be proposed in "soft" forms, such as guidelines. This is in contrast to 2002 when – in response to a spate of accounting frauds at Enron and WorldCom – Congress passed the Sarbanes-Oxley law and created the Public Company Accounting Oversight Board to set standards and enforce them against auditing firms.

Early this year, OCC and the Federal Reserve stripped seven consulting firms of their responsibilities reviewing foreclosure practices after they received $2bn in fees without directing any money to struggling homeowners. In April, the regulators were brought to Capitol Hill to explain how the debacle happened.

In response to criticism, the OCC said it would issue guidance for itself and the industry describing criteria for consultants. Currently, OCC does not approve the hiring of a consultant but can make a "supervisory non-objection", meaning it would object to the firm if it did not meet independence, expertise or resource requirements.

Of the $2bn paid to consultants, Promontory received $927.5m, while PwC received more than $400m related to assignments to four mortgage services. Promontory is also under scrutiny for its hiring of former regulators.

Promontory says it has a code of conduct "that is subject to continuous review and modification as the environment changes. We value the input of others in that process. Having a code is essential, but keeping it current and central to our daily work has always been a critical element in how we function." The firm is updating the code in response to regulators.

PwC declined to comment.

The unnamed consultant says one concern is if the rules become "check the box". In that case, regulators would risk "not focusing enough on the things that we're looking for. Does this person or firm have the ability to figure out if there's a problem? Do they have a backbone?"

Fresh wave of rules brings opportunities

UK market

Clients need more advice on managing risks such as fraud, writes *Gill Plimmer*

Earlier this year Serco, an outsourcing company, was given three months by the UK government to demonstrate a process of "corporate renewal" or risk losing lucrative government contracts.

The UK multinational had faced a series of corporate scandals, which ranged from accusations that it had overcharged the British government on electronic tagging contracts for offenders to altering the records on the transport of prisoners to courts. The series of fiascos ultimately cost chief executive Chris Hyman his job.

But the investigations also created a lot of work for consultancy firms.

PwC has been put in charge of investigating the electronic monitoring contracts for the government, trawling through emails and searching for evidence of overbilling on any other government contracts.

Meanwhile, Serco has appointed EY to examine management processes and identify why frontline staff decided to make a false record of information on key contracts.

The appointments demonstrate how consultancies are finding opportunities in the recession, as both public and private sector organisations demand more stringent adherence to contracts.

According to a recent report by the UK's Management Consultancies Association, 66 per cent of its members are positive about the market conditions this year, compared with just 18 per cent in 2012.

Consultants say demand is being driven by a wave of new regulation and tough codes of conduct that need to apply throughout the organisation.

Martin Dougall, UK regional head of forensic and risk consulting at KPMG, says clients are increasingly seeking advice on how to prevent reputational damage.

"They are looking at both current risks and those on the horizon, domestically and overseas, particularly those potential 'black swan' events that could fundamentally damage their current business model," he says. "Intelligence gathering and integrity due diligence are now vital to proper risk and investment appraisal."

Demand for skills to manage and mitigate risk for clients has grown during the downturn, he adds, initially in financial services but increasingly in other sectors..

This includes proactive risk management and fraud prevention, data protection and security against cyber crime, as well as the need for advice on compliance with the plethora of regulations and legislation, such as the UK Bribery Act and Basel III.

"A lot of issues come out of the woodwork during a recession and these have fundamentally changed the perceptions of risk and compliance in the best-run businesses," he says.

This is particularly true in regulated sectors, which are under increasing pressure to demonstrate that high standards of conduct are embedded throughout organisations.

> 'As the economy frees up, clients can start to look at the long term and make some big bets'

John Kerr, managing director of consulting at Deloitte, says that one of the biggest growth areas is in technology, with the emergence of cloud computing, mobile and social media over the past five years as well as analytics.

"Clients are increasingly looking at how they serve customers rather than how they operate internally," he says. "As the economy frees up, clients can start to look at the long term and make some big bets that they've been sitting on for a long time."

Mr Kerr also points to the resurgence of the mergers and acquisitions market as a further generator of work. "We are gradually seeing an increase and that will generate a lot of transformational and integration work," he says.

Mr Dougall says serious risks remain for UK businesses. He says cyber crime and identify theft are prevalent, litigation is on the rise and regulation and legislation are increasingly intrusive and demanding.

This should ensure that consultants find fresh sources of work as they emerge from the downturn.

Organic growth and alliances promise more than mergers

Consolidation

After a takeover, talent can always decide to walk, says *Ross Tieman*

The contest to create management consulting entities that can both provide strategic advice and implement it is heating up.

An agreement last month by PwC to buy the midsized strategy firm Booz & Company, reportedly for more than $1bn, reflects a strengthening trend.

The Big Four audit firms are leading a wave of consolidation in management industry, from which three – PwC, KPMG and EY (Ernst & Young) – had to pull back more than a decade ago in the wake of the Enron scandal.

In January, Deloitte bought Monitor, a US-based strategy group, out of bankruptcy for $120m.

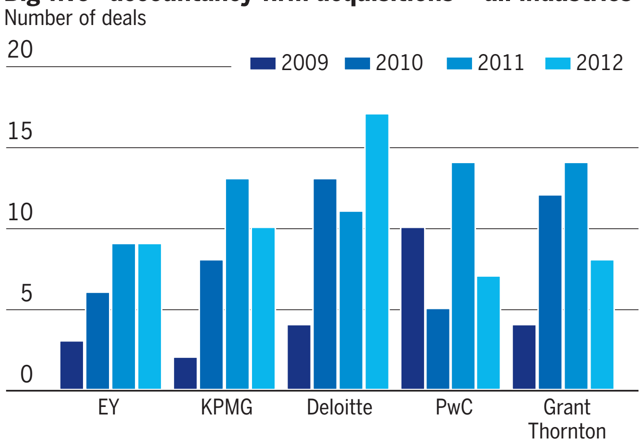
Meanwhile Roland Berger, a Germany-based strategy firm with annual revenues of $1bn, is reviewing its options. Having failed to merge with Deloitte in 2010, Berger has explored a merger with Big Four players this year, and in October continued to ponder whether to form an alliance, or perhaps instead refocus on four or five industry-based regional "hubs". Berger partners will meet in December to chart the firm's future.

John Kerr, global managing director at Deloitte Consulting, says: "Clients are expecting a more global service and an ability to deliver from strategy to implementation."

Along with many in the industry, he says this puts pressure on strategy consultants to combine with those capable of implementing projects. The need to match the global extent of clients demands investment that only big firms can make, he says.

The biggest strategy specialists, McKinsey, Bain & Company and Boston Consulting Group, have the scale and cachet to profit from this year's pick-up in demand for advice in the US and the UK.

Big five* accountancy firm acquisitions - all industries



Source: Equiteq * Big four plus Grant Thornton

But with better profit margins in consulting than audit, the Big Four apparently want to be all things to all clients.

According to the Global Consulting Mergers and Acquisitions Report 2013, published by the boutique advisory firm Equiteq, there were 575 takeovers in the management consulting industry worldwide during 2012, down a touch on 2011, but broadly in line with recent trends.

The Big Four were the most active buyers. Equiteq says EY made nine acquisitions, KPMG 10 and Deloitte 17. PwC, which seems to be making up for lost time, bought seven, and was outpaced by Grant Thornton – the fifth-largest audit firm – which acquired eight.

Consolidation in Germany, which rivals the UK as the world's second-largest consulting market after that of the US, shows how the Big Four are trying to deepen their expertise.

Two years ago PwC bought PRTM, a global firm with a heavy German presence that specialised in operational strategy, supply chain and product development advice.

In June 2012, KPMG in turn bought BrainNet Supply Management Group, a leading supply chain consulting firm based in Bonn, though also with offices around the world. Following the deal, Christian Rast, BrainNet's chief executive, was appointed to head a new KPMG centre of excellence in procurement and supply chain expertise.

Now EY has followed suit. Its German arm this spring bought J&M Management Consulting, a Mannheim-based consultancy specialising in supply chain management and operational processes.

The deal strengthens EY in the market for supply chain advice, at a time when global economic shifts are causing companies to rethink their procurement models.

> With better profits in consulting than audit, the Big Four want to be all things to all clients

Michael Robinson, UK head of management consulting at KPMG, says that often: "Consolidation is about people either forming networks through alliances or doing formal M&A to acquire intellectual property-based rather than body-based consultancy."

BrainNet has software that helps develop supply chain strategies. UK-based Xantus Consulting, another purchase by KPMG, advises chief information officers.

"We bought it for the inherent IP rather than because we were getting 100 people," Mr Robinson says.

Industry leaders have also been mopping up specialists in digital retailing and marketing, to help clients meet the challenges of social networking, tablets and mobility.

Sometimes, says Deloitte's Mr Kerr, it is appropriate "to buy small innovative businesses that have done some of your research and development for you".

Meanwhile, in the race to offer business solutions, some technology-led consultants are trying to bulk up their management advisory capability. Witness the $349m acquisition of Switzerland's Lodestone Management Consultants by India's Infosys in 2012.

Fiona Czerniawska, co-founder of SourceforConsulting, says: "At the moment, no type of firm, whether it is a strategy firm, a Big Four firm or a technology firm has all the pieces of the jigsaw puzzle."

But industry leaders argue that organic growth and alliances offer better prospects of success than mergers in a business where fee earners can easily quit if they do not like the buyer's culture.

Partners at AT Kearney bought back their midsized strategy firm in 2006 after a failed merger with technology heavyweight Electronic Data Systems. Johan Aurik, Kearney's managing partner, sees scale as an enabler that will help it meet client demand for increasingly specialised consultants. "We have made the choice . . . to grow between now and the end of the decade to a $2bn level," he says.

But sooner than buy firms, Mr Aurik aims to hire 200 new partners and junior partners. Among his most recent recruits are a four-strong technology team from PRTM, an earlier PwC purchase.

Success in a business of knowledge workers is about making both clients and consultants happy, he says. "I believe that consultancies ultimately compete on culture."

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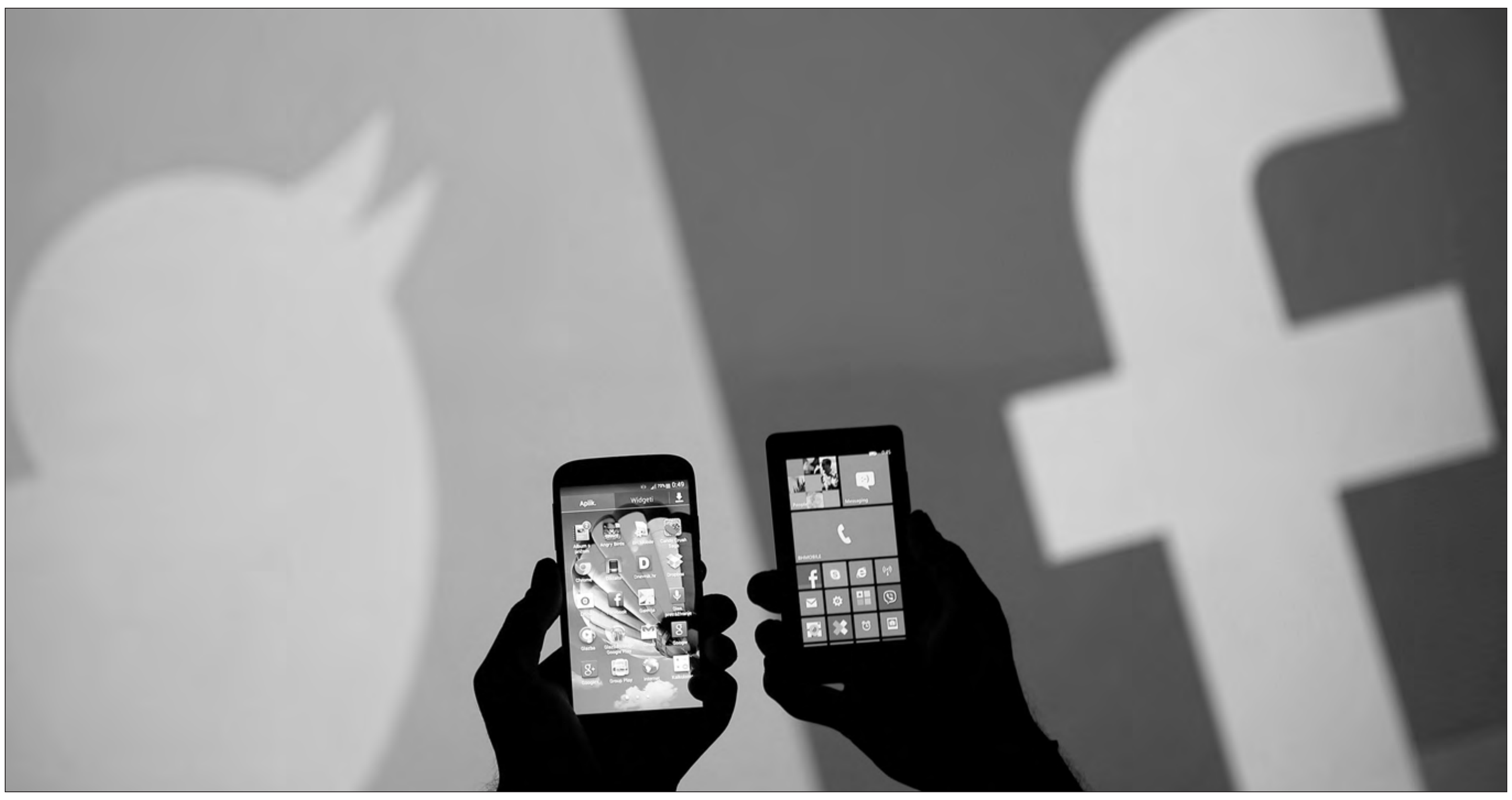
Firms warm to LinkedIn but find benefits hard to quantify



Network building: social media are proving useful for getting consultants noticed and for recruitment Reuters

Social media There has been a pause for thought after heavy spending on the site – and Twitter and Facebook, writes *Maija Palmer*

Consultants have always spent a considerable amount of time promoting their ideas and expertise by speaking at conferences and writing in journals. And now, increasingly, they are turning to social media to get noticed.

"Two years ago, only one or two people at the firm were using it that I knew of. Now everyone is beginning to realise it is a good way of promoting themselves," says William Grobel, a manager in Deloitte's marketing insights practice.

Mr Grobel says his own extensive use of social media such as LinkedIn and Twitter has not only helped him be noticed by clients but has also boosted his profile internally within Deloitte. "The more you get known as an expert, the more likely people are to come to you and include you in a project," he says.

Consultancies have little choice but to turn to social media. Many of the journals that once published consultants' papers have closed, shrunk or moved entirely online. Social media are often the only outlets left.

"It is hard to pitch articles now and we often encourage partners to use social media, because the other pool is so small," says Adrie Voges, a press relations manager at Deloitte.

Most consulting firms are now using the "big three" social media platforms – LinkedIn, Facebook and Twitter – to promote themselves, with LinkedIn by far the most popular.

According to research by Bloom Group and the New York-based Association of Management Consulting Firms, 87 per cent use LinkedIn. Social media now account for 22 per cent of the marketing budget of a consulting firm, on average, up from 2 per cent in 2005.

Such spending is necessary, as clients are increasingly on social media platforms and judging consultancies according to what they do there.

According to the AMCF/ Bloom Group study 43 per cent of buyers of consulting services said a social media mention would at least "moderately" influence their opinion of a consulting firm they had not used before.

In addition, Patrick Pordage, marketing director at Cambridge Consultants, says social media have some unique advantages for consultants. "Clients buy the security of our brand but part of the purchase process is that they are buying the people. You have to trust the people you are hiring for your project. Social media platforms let personalities shine through in a way that a highly polished press release can never do," he says.

Mr Pordage adds that social media updates are quick to write yet can have a widespread impact, making them a cost-effective self-promotion tool. "It takes 30 seconds to write a LinkedIn update, but you can have people around the world commenting on it instantly," he says.

Social media are also proving a useful tool for finding and hiring talent. "I think it will be a long time before a global client starts Facebook messaging us to build them a new product. But certainly for recruitment it is very interesting," Mr Pordage says.

Cambridge Consultants is in constant battle with other technology businesses to recruit top-flight engineers and Mr Pordage believes social media – perhaps even a video site such as YouTube – could be used to give potential recruits a tantalising glimpse of the company to inspire them to apply.

For all the enthusiasm, however, return on investment in social media is proving difficult to calculate. Nearly half the consulting firms surveyed by Bloom Group/AMCF said they could not tie their social media activities to leads and client engagements. "It is hard to quantify Twitter use and new contract wins," admits Deloitte's Mr Grobel.

There is a growing disenchantment particularly with LinkedIn, where many consultancies have set up groups or pages where people interested in a certain topic can discuss ideas. Around half of consultancies run LinkedIn groups, but many now say they are failing to bring in the desired leads.

And so, after some eight years of seeing social media budgets rise rapidly every year, there is now something of a retrenchment. Many of the consultancies in the Bloom Group/ AMCF survey said they would either decrease or keep at the same level the resources they dedicate to LinkedIn.

"On average, they are saying it not adding value and it is a lot of work to keep it up," says Bob Buday, partner at Bloom Group.

The more optimistic believe that a consistent presence on social media is gradually bringing in work, albeit in a way difficult to pin down.

"A lady came to us for a project and said she had chosen us after reading our stuff online for 18 months," says Tim Parker, partner at Bloom Group. "You don't know what is going on until the phone rings. But it is never one article, it is always a continuous stream of material that brings new clients in," he adds.

> Nearly half the firms in a recent survey said they could not tie their social media activities to leads and engagements

The difficulty of defining the benefits may make it harder to persuade some of the more traditional members of the profession to "go social".

Mr Grobel admits that some of Deloitte's older consultants have needed a certain amount of hand-holding and help to start using social media. "There will always be people here who are just interested in engineering," agrees Mr Pordage. Cambridge Consultants does not force its consultants to use social media if they do not want to.

Yet those who have embraced this mode of communication are finding it may not only be winning them work but could even be making them better consultants.

"It has concentrated my mind on positioning what I do and who I want to engage with," says Mr Grobel. "Clarity of thought is an essential skill for a consultant and nowhere does that become more evident than in the 140 characters of Twitter."

Pay is not the only incentive for employees

School days: training is a good way to build talent

Talent management

Employers do well to pay attention to the working environment, says *Sharmila Devi*

The entrance of a younger generation of "digital natives" who take the use of technology in every facet of their lives for granted has made management consultancies think harder about how to attract and retain talented youngsters without alienating middle-management staff.

Every stage – from understanding the mindset of young people and training them, through to keeping them – is being monitored.

"There is a whole new generation of people who interact in a different way," says Jon Andrews, head of the human resource services practice at PwC.

He describes millennials, who were born between 1980 and 2000, as "togglists" because they routinely toggle between applications and assignments. He called older people "compartmentalists".

"Younger people aren't necessarily more or less tech-minded but the difference is inherent in the way that they use technology," he says.

In a mundane example, he says older people might take a personal device on holiday, hide away from the family to check email, then use another device to read a book. Digital natives, on the other hand, will take one device and toggle between email, music and other applications.

"In the workplace, the concept of compartmentalised meetings is much less relevant. Digital natives have a higher degree of fluidity and will chat online or face to face whenever necessary," says Mr Andrews.

He points to a PwC survey, Millennials at Work, which found that personal learning and development and work/life balance were more important than financial reward. Cash bonuses came in third.

"They are constantly looking for feedback. We have training programmes where there isn't just a once-a-year review, but a number of touch points; we've identified people whose strength is people management because you can't expect everyone to be good at it," says Mr Andrews.

Professional services firms are in the top rank when it comes to recruiting talent, but they cannot always assume that offering high pay would "lock in" their recruits, says Eugene Burke, chief science and analytics officer at CEB, a business advisory and research company.

> 'To find future leaders, employers should think more about recruiting at the later stages of someone's career'

"Recruiters are heavily focused on the 'best' and brightest graduates and do not necessarily understand what 'best' is for their organisation," he says. "This is creating unprecedented levels of competition in the war for graduate talent."

Only one in 15 graduates is classed as top talent, according to CEB research, so employers should also look at building talent through learning and development programmes, says Mr Burke.

In CEB's employability model, graduates are scored on their execution skills – including enterprise and performance – and their levels of engagement, including leadership and ability to adapt.

The odds of recruiting a graduate with a good score on engagement are lower than getting one who is good at execution, says Mr Burke. "To find future leaders, employers should think more about recruiting at the later stages of someone's career."

This year, Accenture has made what it calls "experienced hires" – people in their mid- to late-20s with three to five years' work experience.

Gilly Bryant, who heads the firm's Analyst Consulting Group, says: "Where we've changed is that we've taken on 50 experienced hires who don't come through the classic channels of entry, but have previous work experience that's very relevant."

"Clients haven't stated a preference for younger people as such, but rather for experience and skills."

When it comes to training, firms are aiming for a dynamic, multi-platform framework that uses smart phones, blogging and technology hubs. Equal emphasis is put on raising existing staff's skills and training the newest recruits.

Accenture, like other big firms, says it is not aware of any staff who feel threatened by younger recruits, because they know that continuous self-improvement through experience and through company training schemes is vital for the job.

"There are lots of people like me with 12-plus years' experience," says Ms Bryant. Mid-level staff have the opportunity to develop their own personal leadership style by managing the latest recruits, and are motivated to take part in training as a way to prepare the way for their own promotion, she says.

EY also emphasises middle-management training. Bill Farrell, global advisory people leader, says: "We do a lot of work around the inclusiveness agenda so that older people understand the new expressions of younger people."

Loyalty and retention are obviously valued by firms, but priority is also given to retaining connections through channels such as alumni networks, to deal with the inevitable turnover of staff.

"We recognise that not everyone will stay here for their whole career," says Mr Farrell. "But however long you do stay, we expect the experience to stay with you for a lifetime. We develop relationships over the long term."

EY has found success with its "building a better working world" strategy. "It's resonating really well with young people, who see themselves as contributing across society," he says.

He points to the firm's number two ranking – after Google – as the world's most attractive employer, in a survey by Universum, which contacted 200,000 students around the world.

"We've always tried to understand the buying power of this new generation," says Mr Farrell.

Schemes aim to promote more females to partner

Women's role

Firms are finding it challenging to achieve a better gender balance, says *Sarah Murray*

The hours are long, the travel gruelling and teams are at clients' beck and call. These conditions are often blamed for the fact that few women reach senior positions in management consulting.

But while firms are working to change this, the question is whether the industry can shift the balance.

Progress is being made in management consulting firms. "The pipeline of talent coming into those organisations tends to be 50-50 men and women," says Deborah Gillis, chief operating officer at Catalyst, a non-profit organisation that promotes the advancement of women in business.

However, the proportion of women in the higher echelons is smaller. "What's interesting about professional consulting firms is the drop-off," Ms Gillis says.

"Typically, we fail to see women get to the partnership level in those firms."

This is not for lack of trying. Firms have introduced a variety of innovative strategies to foster women leaders – often as part of more individually tailored approaches to promoting diversity.

Through its Career Watch sponsorship programme, for example, EY, the professional services firm, assigns senior leaders to serve as advocates for high-potential women and minorities. The advocates ensure that participants are given mentoring as well as challenging client assignments. In the UK, for example, EY has 94 women being sponsored by 66 partners.

And Capco, a consultancy serving the financial services industry, is trying to increase the number of women being promoted by providing targeted mentoring programmes to high performing women who have not yet reached partner level in the firm.

Often, casual discussions can be as helpful as structured diversity programmes. Part of Accenture's Accent on Women network involves helping female executives arrange informal meetings with senior women leaders in the firm, who talk about their experiences and pass on tips for success.

Hilary Thomas, a partner in KPMG's public sector healthcare team, says firms also need to improve the way data are captured on women in the workforce.

She includes her own firm in this recommendation. While KPMG promoted seven women to positions as directors last year, contributing to the organisation's pipeline of potential female partners, Prof Thomas says the firm "couldn't say how many applied, who were part-time and how that compared with previous years".

Lesley Uren, a talent management expert at PA Consulting, believes firms must look beyond initiatives such as flexible working and mentoring.

"You can spend time on things that scratch the surface," she says. "But if you have a culture that is fundamentally not strong on core values, that's unlikely to be somewhere where women will thrive."

A number of factors lie behind the increased attention that firms are paying to helping women rise through the ranks.

First, they want to practice what they preach.

Alan Leaman, chief executive of the UK's Management Consultancies Association (MCA), says: "Many are advising clients on issues such as work-life balance and how to get the best out of employees. So they're also looking at those issues themselves."

> 'If your culture is not strong on core values, that's unlikely to be somewhere where women will thrive'

Another driver is growing awareness that having more women in senior positions benefits the bottom line. Research by Catalyst has found that companies with the most women board directors outperform those with the least by 16 per cent on return on sales and by 26 per cent on return on invested capital.

But despite the efforts of firms to create a working environment that fosters women's promotion, the nature of management consulting throws up barriers to their advancement.

Ms Gillis cites the traditional billing model. "The pressure to deliver in terms of numbers of hours often hits a peak period when many young women are looking to start their families," she says. "So you see the demands of the job and personal life colliding."

And while many firms offer part-time positions to women who want to focus on their families, this can make it harder for them to be selected for high-profile client-facing projects.

Prof Thomas says: "I can think of several high-performing women who have left [consulting] out of the sheer frustration of feeling that by working part time they're missing out, or that they have to compensate in their own time – so it's not truly part time."

However, PA's Ms Uren argues that, unlike many industries, much of consulting work can, in fact, be done remotely.

"It's far more output driven," she says. "In consulting, provided that you deliver what you need to deliver for the client, you can work very flexibly," she says.

Research suggests that firms could do more to provide this flexibility without damaging their client relationships or reducing their ability to generate business.

In an MCA survey of consulting clients* published last year, 82 per cent said that if flexible working were included as part of a management consultancy proposal, it would not put them off hiring a firm.

**Consultants working flexibly, Management Consultancies Association, 2012*

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