The Business of Consulting

Tuesday November 11 2014 www.ft.com/reports | @ftreports

Dissolving of boundaries lets in more competitors

Andrew Aitchison/Alamy

The industry is having to adapt as technological changes redraw the landscape, says *Andrew Hill*

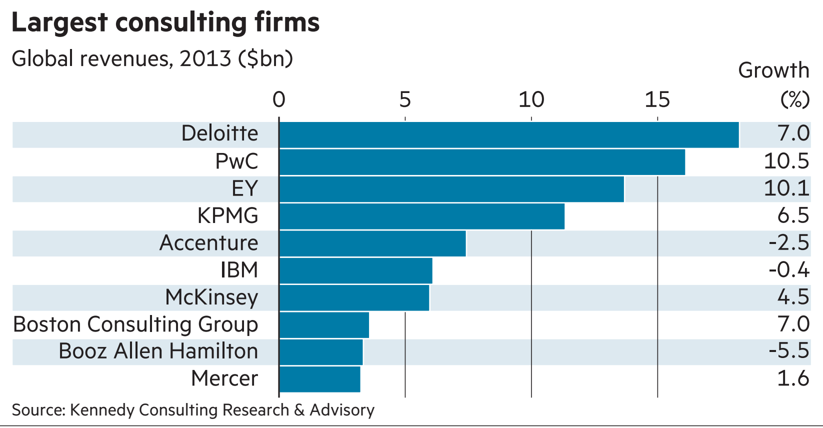
When Grant Thornton wanted to devise its latest global strategy, the accounting and advisory group did not call in a team from McKinsey or Bain. It organised a 72-hour online "jam" for its 38,500 staff worldwide.

"It was essential to us that we didn't present a strategy that was done in a darkened room by people sitting round a table," says Francesca Lagerberg, head of people and culture, who describes the September jam as "like Facebook on speed".

When a new chief executive wanted to shake up Leeds Teaching Hospitals NHS Trust last year, he asked his 16,000 employees to create a new template for the hospitals' values, vision and objectives, using a process devised by crowdsourcing specialist Clever Together.

The trust had used traditional consultants before, but Peter Thomond, Clever Together's managing partner, says that while the outcomes of staff consultations are "not as pretty or as slick" as consultancy strategy documents, "thousands of people write them and the buy-in is massive". The exercise helped the trust come up with a five-year strategy and a leadership framework called "the Leeds Way".

Largest consulting firms



Source: Kennedy Consulting Research & Advisory

Sometimes it seems as though we are all consultants now. The scale, scope and sophistication of networking tools allows organisations to collect ideas and disseminate the results of consultations easily and cheaply.

Many executives are either former consultants, who have fanned out from temples of strategy to run organisations worldwide, or MBA-holders imbued with theoretical and practical knowledge of management. By combining analytical tools, social media and their own expertise, they can afford to be choosier about when they hire consultants and what they pay them for.

The fast-changing nature of business has also made it harder for consulting groups to sell the same strategic frameworks to clients as they used to, as a group of McKinsey consultants, academics and corporate heads of strategy acknowledged in a debate for the 50th anniversary edition of *McKinsey Quarterly*, published this autumn.

Michael Jacobides of London Business School told the *Quarterly*: "When the environment changes profoundly, the maps with which we navigate it may need to shift as well. For instance, from telco to healthcare to computers, sector boundaries are changing or dissolving, and new business models are redefining the competitive landscape."

The same deep changes affecting consultants' clients are affecting the consultancies themselves. That is one explanation for the consolidation at the top of the consulting industry. PwC completed its acquisition of Booz & Co (rebranded Strategy&) this year. Significant acquisition activity also takes place below the radar of daily headline news, where large groups such as Deloitte continue to absorb dozens of boutique companies annually, expanding their expertise.

Smaller consulting groups see opportunity in the changing landscape, too. "Whenever you shift the players in

Continued on page 4

Inside

Engaging the next generation of talent is the big challenge

Staffing Tech-savvy millennials are in demand but they have their own priorities, writes *Liz Bolshaw*

The changing face of work: life in a Google office

Technological advances and an ageing workforce are changing the nature of work – and with it the recruitment patterns of the UK's main consultancies.

Critical to most workplaces is encouraging diversity – and moving away from the perceived homogeneity of the past.

Paul Connolly, director of the Management Consultancies Association Think Tank, comments: "Our corporate boardrooms, typically overstuffed with middle-aged 50-something males, need to acquaint themselves with people who have extremely valuable skills, but who don't necessarily wear a collar and tie, aren't necessarily Oxbridge.

"However, they can inject some benign bacillus into the analyst-stuffed realms of corporate life."

While combined audit revenues for the Big Four professional service firms have shrunk by $5bn over the past five years, consulting business is booming, with an increase in revenues of $16.1bn over the same period.

Growth in digital services – big data, cyber security, mobile applications – is at the forefront of the consulting charge, and it is resourcing technology and digital practices that keeps most talent managers awake at night.

"The business I am responsible for only came into existence in January and now has 28,000 people," says Mike Sutcliff, group chief executive of Accenture Digital. "They were all doing something else two years ago."

The millennials – those born between 1980 and 1995 – are a key demographic and one of the main targets for recruitment, but what they want in return is shifting.

"Attracting the next generation is the big challenge," adds Mr Sutcliff. "There are not enough people with the Stem – science, technology, engineering and mathematics – skills we need in lots of countries and at all skill levels. It is getting harder to find all the people we need in all these categories."

Simon Collins, UK chairman and senior partner at KPMG, sees a difference in the millennial generation's priorities. "They are considerably more thoughtful about work: they want to know why they are doing it and that it will make a difference," he says.

"They are less interested in hierarchical progression and more interested in working on really cool things," says Stevan Rolls, UK head of human resources at Deloitte. "Having meaning and control in the work that you do is critical for this generation."

The importance of consulting firms' social brands, particularly for this generation of digital natives, "cannot be underestimated", adds Carl Smith, global talent leader for EY's advisory business. "What you do when no one is looking is what ends up being communicated round the world."

Consulting groups are also facing increasing competition for staff from big technology companies. "Google and Apple are like the Foreign Office of the 1970s," says Mr Collins.

All consulting firms are looking at creative approaches to recruitment, from school-leaver programmes to flexible working options for older staff.

PA Consulting, which has its own innovation centre that creates technology products as well as consulting services, is looking at offering its own technology apprenticeships, says Lesley Uren, a talent management expert with PA Consulting. "We are flirting with this at the moment."

"We are already seeing some of our alumni working more flexibly," says Mr Rolls, "but retaining their contact with the firm. There is a cadre of people with the skills, the relationships and understanding of the firm that is of real value to the business."

Diversity is a common mantra. "I was terrified we would end up completely homogenising our recruitment in our own image," says Mr Collins. "Soon everyone has a first or a 2:1 degree, has climbed Kilimanjaro and raised £50,000 for charity by the age of nine."

Age has also become a factor, with many firms reporting an increase in mid-career hires. "We have brought in more people mid-career than historically, but it is always a gamble," says Ms Uren. "There is about a 50:50 hit rate."

> 'Having meaning and control in the work that you do is critical for this generation'

The key is to strike a balance between new and experienced hires, adds Mr Sutcliff, something Accenture Digital attempts to do. "That has definitely changed from when [we] started out and all the recruitment was at graduate level."

Mr Rolls says: "It is incumbent on firms to reach out to their people – men and women – to understand what they want, what they need. If you have these conversations, you are less likely to lose people. It is just good talent management."

But ultimately, there are four main factors that determine whether a person is likely to stay and become a high flyer, explains EY's Mr Smith.

"Someone cares about me; you are investing in my development; walking the talk; and recognition for contribution. When I look at our recruitment and retention, those four things come up consistently."

Downturn delivers valuable lessons

Recruitment may be up 16 per cent this year, according to statistics from the UK-based Management Consultancies Association (MCA), but the effects can still be felt of the financial crisis, when promotion opportunities dried up and frustrated high-flyers left to seek new opportunities.

"During the financial downturn, not only did some consulting firms shrink, but also the choice of work to do was more limited," says Lesley Uren, a talent management expert with PA Consulting.

Paul Connolly, director of the MCA Think Tank, agrees that this, along with blocked career paths, caused some to flee the profession.

"Consultancy slipped into implementation during the downturn, so firms were advising on 'cutting the grass' but doing a bit of grass-cutting of their own as well," he says.

Not all groups shrank, however. Martha Samuelson, president and chief executive of Boston-based Analysis Group, says the firm has never had a lay-off in its history.

"During the financial crisis we experienced a modest downturn, so as partners we took a decision to absorb it. It's a cultural thing never to have had a lay-off."

Paul Connolly

For those groups that did reduce recruitment, lessons have been learnt. "After the experience of the financial crisis, one thing I have vowed is never again to chop off our entry-level recruitment," says Simon Collins, UK chairman and senior partner at KPMG.

"Whatever happens in the economic cycle, chopping off entry-level recruitment simply gives you a problem when the economy starts to recover."

Deloitte, Accenture Digital, Analysis Group, PA Consulting and EY all report having increased their mid-career hires to help fill talent gaps.

Liz Bolshaw

School leavers provide increase in diversity

The twin forces of student debt and grade inflation – the number and proportion of first-class degrees has doubled in a decade – are making university a less obvious choice for UK students in possession of three good A-levels.

Consulting firms are expanding their school-leaver programmes to tap into this valuable source of young – and diverse – talent.

All the Big Four groups offer school-leaver programmes, but PwC is the only one that offers a non-graduate route into consultancy. The UK firm takes 130 recruits into its school- and college-leaver programme every year – about 10 per cent of its overall entry – from about 2,500 applications.

"One of our key drivers is to create more and more varied routes into our profession," says Kate Awdry, PwC's school recruitment manager. "It is a business imperative, because not all our clients are 2:1 graduates either."

EY's Smart Futures programme also focuses on disadvantaged students in the UK's underprivileged areas. Zoe Onyenuforo, a trainee accountant with EY, joined after a three-week internship via the Brokerage Citylink, a social enterprise.

"My school had no links with EY, so without [Brokerage] I would never have known the internship existed," says Ms Onyenuforo.

Ms Awdry says that PwC employs social media and online advertising to publicise its scheme as well as involving current apprentices.

"There are no better spokespeople than the people doing it," she says.

Ms Onyenuforo is certainly an advocate for EY's scheme. "I felt part of the EY family from the day I walked in. I am going to be a chartered accountant aged 23, and there aren't many people who can say that," she says.

Once accepted, those on school-leaver programmes are as ambitious as their graduate-entry peers. "I have never felt I can't progress because I am not a Caucasian male," Ms Onyenuforo adds.

"I am taking my career as it comes, but if one day the opportunity arose to become a partner, then why not?"

Liz Bolshaw

Gender gap persists at highest levels

Recent research on women in US management consulting firms finds that just 10 per cent of partners are women.

The report, from Source, an information provider that specialises in management consulting, notes that many consulting groups acknowledge that women account for "as much as half their intake".

Some big firms exhibit greater diversity in their partners, however. A survey last year by the National Association for Female Executives found that 18 per cent of KPMG and Accenture partners were women, while EY headed the diversity table with 24 per cent.

The Source survey shows there is a strong commercial argument for consulting firms to increase diversity. Nine in 10 clients surveyed said they would like to see more women on consulting teams.

Carl Smith, global talent leader for EY's advisory business, says: "More diverse teams create more dynamic results, but also our clients are more diverse and expect to see diversity." He says the firm "recently won business against a major competitor because that competitor produced an all-male team while ours was diverse".

Martha Samuelson

Martha Samuelson, president and chief executive of Analysis Group, which specialises in economic data, says firms need to take a long view of an individual's lifetime career. "You have to be flexible. Having control over your life and your time is important for everybody," she says. "I started as a part-time employee with three little kids."

"It starts at the top," says Jacqui Canney, managing director of human resources at Accenture Digital. "Pierre Nanterme [Accenture chief executive] has prioritised the promotion and visibility of women. That cascades down through the organisation."

Liz Bolshaw

Tie-ups offer a quick fix where in-house skills are in short supply

Partnerships

Firms are making up for gaps in their expertise by forming alliances with outside talent, reports *Liz Bolshaw*

The Big Four professional services firms, faced with an increasingly complex working environment, are increasingly turning to partnering with other companies to augment their offering across a wide range of specialised areas.

Deloitte teamed up with Shouli & Partners, a global immigration services and talent company, in 2013. EY has formed an alliance with technology company Greenphire in the healthcare payment technology sector.

"Faced with the option of competing or partnering, most firms will choose to partner," says Tom Rodenhauser, managing director of advisory services at Kennedy Consulting Research & Advisory. It is particularly attractive to big consulting firms in fast-growth technology sectors where capabilities have yet to be built, skills shortages are high and demand is urgent.

"What are often called SMAC [social, mobile, analytics and cloud] technologies are particularly hot, new and sexy," says Mr Rodenhauser. "It's the same kind of race we saw in 1999, when everyone was moving from Web 1.0 into this more virtual environment."

PwC's recently announced partnership with Google will help its clients exploit Google Apps, cloud solutions and productivity tools. At the other end of the scale is KPMG's UK business tie-up with cloud accounting provider Xero.

In cyber security, where there is heightened demand and a shortage of skilled professionals, most consulting organisations are operating at capacity, explains Travis Reese, president of Mandiant, an information technology security company.

Mandiant, which was acquired this year by FireEye, a network security company, "has established strong partnerships with the Big Four, as they leverage [our] products and services as a component of their delivery of a more comprehensive solution to their clients", he says.

But while it may be obvious what the larger firm gets out of these relationships, how does a fast-growth, high-profile company such as FireEye benefit?

"FireEye does not plan to build a 2,000-person consulting firm," explains Mr Reese, "so we are absolutely dependent on our partner ecosystem to build comprehensive solutions for the market."

Consulting groups do not always need to pursue corporate partnerships to add muscle and knowhow to their clients offerings. Gerson Lehrman Group (GLG), the New York-based consultancy, has developed an expert peer-to-peer delivery model that provides near-instant answers in esoteric areas of knowledge through its network of 400,000 global experts.

"Increasingly, accessing expert knowledge is not done by reading a research report or going to a conference," says John Donoghue, head of new markets at GLG. "It's by talking to the one, two or three most recognised experts on that topic in the world."

Customers include Wall Street banks, financial institutions, professional service firms and large corporations.

"They have consistent needs: they have lots of specific questions every day on complex topics," he says. GLG has 21 offices round the world and on any day facilitates 1,100 consultations over the phone as well as face-to-face meetings.

400,000	1,100
Number of experts in GLG's global network	Daily number of consultations with GLG experts

While the firm's core business is short telephone consultations, clients occasionally use it for a longer-term project. "In the cleantech space, for example, we have deployed people with particular expertise in wind turbine technology for a six-month period," says Mr Donoghue.

Partnering offers a quick fix: firms can respond quickly to a new client need in an area in which they have yet to develop capability, and add skills without the risks, costs and time associated with acquisitions.

Yet despite the benefits of partnering, acquisitions continue unabated, helping fuel what Mr Rodenhauser calls "the bifurcation of the consulting market, with especially Deloitte and PwC taking more and more of the market share".

EY, for example, has bought Parthenon Group, a strategy consultancy, following in the footsteps of Deloitte's purchase last year of boutique Monitor Group and PwC's acquisition of Booz & Company, a mid-tier consultancy.

KPMG strengthened its alternative investments practice with the acquisition of Rothstein Kass, a hedge fund adviser, and extended its IT reach with the purchase of Safira, a consultancy providing business-processing services for IBM.

These acquisitions, Mr Rodenhauser says, "are as much economic as strategic", allowing to add resources in areas that are otherwise facing hiring freezes. They also indicate the Big Four are as committed to competing with McKinsey, Boston Consulting Group and Bain & Company in strategy consultancy as with each other, he adds.

Ultimately, the challenge for all consulting groups, Mr Rodenhauser says, is how to expand into growth markets of the Brics – Brazil, Russia, India and China. The promise of these markets, he says, "will lie less in strategy consulting and much more in execution and process efficiency".

Nimble boutique gives headhunters a run for their money

Executive search

Competition for the middle of this lucrative market is pushing top recruitment groups to focus on the high end, writes *Emma Boyde*

Elite headhunting firms may soon face the first competitive challenge to their businesses since they started operating more than 50 years ago. And it is coming from boutique consultancies.

With clients wanting to trim costs, it seems likely that demand for a cheaper service will grow. There is a lot of money at stake. Top level executive search firms, which define themselves as companies that are paid a retainer by their clients to recruit at C-suite level or above, also typically charge one-third of the successful candidate's first year's pay (in salary and target cash bonus).

Paul Ford, chief executive of Anchura Partners, a boutique consultancy formed in London in 2010, says he expects more niche firms such as his to move into the headhunter space.

He explains that Anchura caters for the banking and finance industry in the City and is staffed by people who previously held senior positions in that sector. "They are not career consultants. They are practitioners first and foremost." Mr Ford says that where his company has an edge over established headhunters is in its ability to react quickly to a client's needs.

He describes how he recently advised on a growth strategy that the client wished to implement immediately. He stepped in as chief operating officer straight away, provided Anchura staff to fill the new roles temporarily and spearheaded the permanent recruitment of the entire new team including 12 people at managing director level or above.

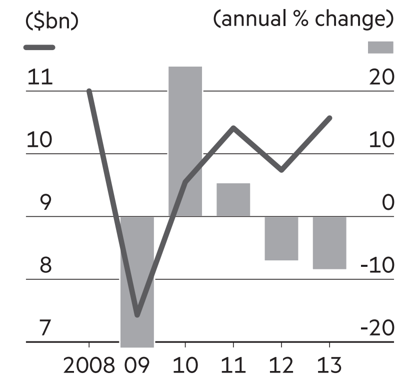
"It is easier for the consultant working inside the organisation to tailor solutions. We see the role of the headhunter starting to focus almost exclusively on the very top end of the market," he says.

Luckily for headhunters, top level executive search looks set to have a bumper year in terms of revenue, according to the US-based Association of Executive Search Consultants. It says 2014 revenues are on track to surpass the all-time high of $11bn it estimates elite headhunters earned in 2008.

"Demand has picked up sharply," says Peter Felix, president of the AESC, which represents 6,000 executive search consultants working at a high enough level to be retained by global companies to find senior managers.

But Mr Ford's assessment that headhunters will have to stay at the highest end of the market seems to be borne out by the AESC's latest data. Revenues for 2013 were 8.5 per cent up on 2012 at $10.57bn worldwide. However, 2013 also showed a 8.5 per cent drop, year-on-year, in the number of new searches.

Given that the business is so lucrative, it is hard to understand why the big-name management consultants do not move in, especially when executive search is something they used to offer. The AESC explains that a number of early executive search firms operating on a retainer basis were founded as offshoots of management consulting, even though the big name firms later exited the business.



Source: Association of Executive Search Consultants

Mr Felix believes the reason the consulting firms no longer offer executive search services is due to to the need to avoid conflicts of interest.

"If you are consulting for a client it is completely unacceptable to recruit away their people," he says.

Russ Hagey, chief talent officer and senior partner at Bain, says it prefers to stick closely to its core business. "Executive search is a completely different business from strategy consulting." He says Bain has never considered moving into search.

Tom Fuller, chief executive and managing partner of Epsen Fuller, a headhunting firm, thinks the reason consultants are not operating in the search space is because it is too specialised.

"Just because they are good at assessing strategy, it does not follow they are good at assessing talent," he says.

The 'Goldilocks paradox' gives a role to those in the middle

Midsized firms It is vital to develop expertise and not diversify too much, says *Gill Plimmer*

Trade at your business is slowing and shareholders are unhappy. The pressure to deliver faster growth and higher returns is increasing. As so often happens, you promise a business transformation plan.

Between a third and two-thirds of consultancy work involves new technology and business transformation, says Fiona Czerniawska, joint managing director and co-founder of Source for Consulting.

"Executives have shareholders breathing down their neck so any transformation process is attractive even if it turns out to be a fairytale," she says.

The drive for large-scale projects – often involving information technology – is helping the top 20 biggest consultancies to grow faster than the mid-tier firms.

"Midsized firms can be neither fish nor fowl," says Ms Czerniawska. "They can be squeezed from the bottom, where smaller firms often charge lower fees and can provide greater specialisation; and squeezed at the top, where big firms are growing faster, driven by very large projects that involve transformation and technology."

Nevertheless, there are opportunities for mid-tier consultancies, which include OC&C, LEK, AT Kearney, PA Consulting and Kurt Salmon.

"It's the Goldilocks paradox. You've got smaller firms that are just too cold and too small, the big firms that are just too big or too hot, and what they want is the middle. Clients like midsized firms but what these have to do is find ways of delivering their services profitably."

The biggest mistake that midsized firms make is to diversify too much.

Yet if they get it right, they can combine the brand recognition of a big consultancy with the specialist expertise of a smaller advisory firm. "There is an opportunity for midsized firms that can combine both," says Ms Czerniawska.

Although pricing is under pressure across the board, clients are keen to find consultants with expertise in particular sectors.

Chris Outram, founder and chairman of OC&C, a global strategy consultancy, agrees. He says the strategy consulting market will continue to grow, albeit at a slower rate than historically, particularly in the developed economies.

"Issues around focus, cost effectiveness, competitive advantage, growth and diversification continue to be at the forefront of the chief executive's agenda," he says.

"Their need to supplement internal resources with objective, well-informed advice when addressing these issues is likely to continue." He says there has been an inexorable trend to outsourcing of strategic capability given that it seldom fits comfortably into most organisations' structures.

"As the market for strategy consulting becomes more mature globally, chief executives tend to reach not for generalists but for people who have deep experience of their industry sector – people with an understanding of the issues and with a vocabulary which enhances communication," he says.

"Clients do not want to have to 'educate' their consultants," he adds.

This environment is encouraging consultants to specialise. "A small, niche consultancy can effectively compete with much larger organisations, as long as its knowledge and insight in the particular sector in which it competes is world class," says Mr Outram.

> 'CEOs tend to reach . . . for people with experience of their industry sector'

Paul Heugh, chief executive of Skarbek Associates, a strategy implementation consultancy, says that boutique firms can take market share from larger firms by specialising in niche areas. But successful delivery is always crucial. "Too often in business, a good strategy is let down by poor implementation. This is creating opportunities for boutique firms to take market share in strategy execution from midsized players," says Mr Heugh.

Clients are more discriminating and demanding now. They either want the security and systems of a big global name, or tailor-made guidance from a smaller boutique.

"Midsized companies have often tried the strategy of 'land and expand'," he says. "But this is becoming increasingly difficult for them.

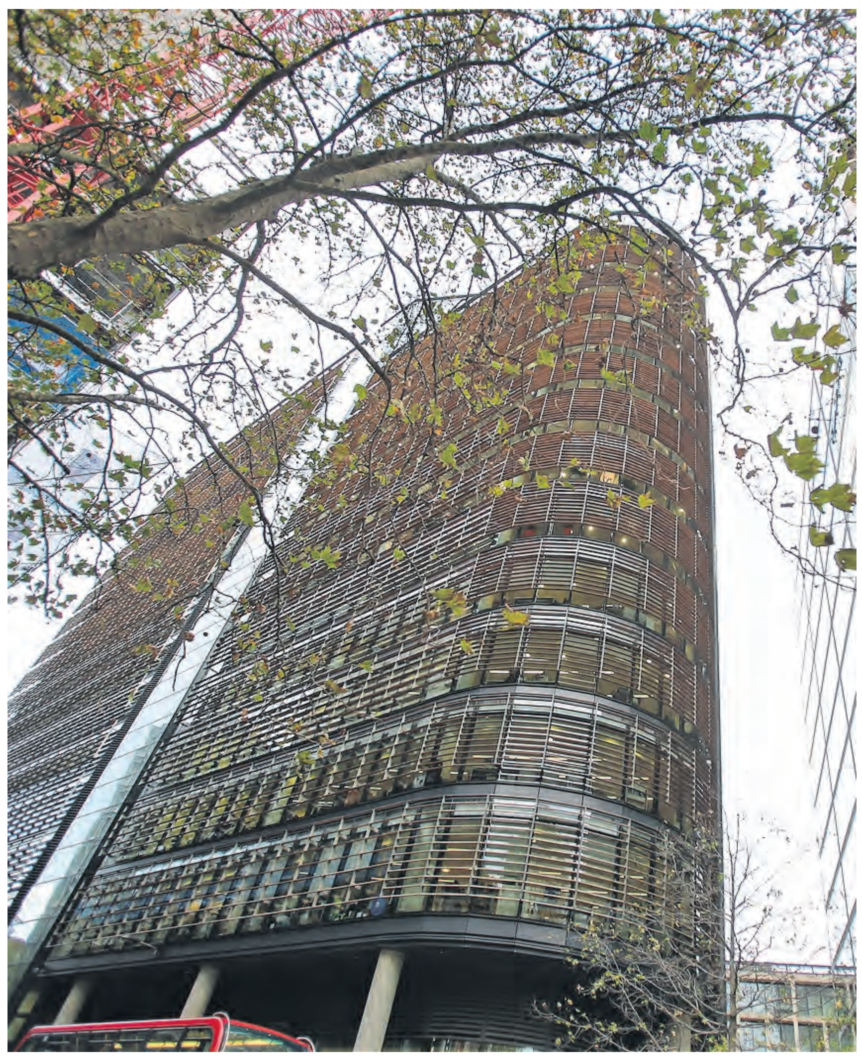
"Compared with the fast-moving, low-cost and partner-heavy approach of the boutiques, many midsized firms are also under pressure from their overheads, employment models and broader operating infrastructure."

John Kerr, partner at Deloitte, says the largest clients increasingly expect their consultants to know the local market environment as well as having global reach.

But the digital revolution is creating opportunities as well as leading to the need for investments in low-cost technology centres.

He warns that the "squeezed middle" may not always have the capacity to make these investments.

This may lead to a wave of takeovers, as larger players acquire the midsized consultancies.


Raising its sights: the London home of strategy consultancy OC&C — Charlie Bibby

Politicians put brakes on government work

Public sector

Projects tend to be smaller and more specialised, reports *Ross Tieman*

Public sector consultants are bracing themselves for a hiatus in two of their biggest markets.

The Republican victory in this month's US midterm elections, and next spring's general election in the UK are likely to be followed by reviews of government spending plans.

The last UK election, in 2010, triggered an earthquake for the consulting industry. Public sector business collapsed as the Cabinet Office , whose role is to ensure the effective running of government, slashed consultancy deemed inessential. The subsequent drive to cut the cost of public services and improve their efficiency provided a slight boost. In 2013, public sector revenues rose by some 3 per cent, according to the UK's Management Consultancies Association (MCA). But they provided just 20 per cent of the industry's 2013 UK fee income and in real terms languish at only half their pre-election peak.

No comparable shock is expected next year on either side of the Atlantic, however. The US has been slower to bring down public spending on consulting, says Tom Mullen, practice head of federal and defence at PA Consulting Group. Rather, cost-reduction efforts have gone hand-in-hand with a search for better value and rising spending on healthcare advice.

Budgetary constraints continue to motivate governments in the developed world to overhaul provision of services. As Paul Macmillan, global head of public sector at Deloitte in Toronto, observes: "You have to spend money to save money."

Meanwhile, public authorities everywhere are striving to comprehend and apply the potential of digital technologies. Improving transport and other infrastructure is a priority common to developed and emerging economies.

Demand for advice on the use of technology in education is soaring, healthcare reform strives to keep pace with therapeutic innovation, and cyber security and defence remain solid markets.

Developed economies, from Canada to Australia, remain the industry's mainstay. Austerity-snared continental European countries, in particular, are seeking advice on revenue management and tax collection, border controls, healthcare and labour and trade policy.

Asian economies developing healthcare, education and welfare systems buy advice, as do Chinese cities, though the central government is more self-reliant. Public sector consultants are already looking to build in-country expertise in these markets.

The era of big turnkey projects is gone. Projects are smaller and more specialised. Public sector purchasers of consulting are demanding ever-higher levels of technical expertise, says Andrew Hooke, head of the government practice and chief operating officer at PA. Firms must field experts in the activity as well as technology and strategy. "Advice on digital transformation is becoming the biggest service line," he says, and will contribute to a phase of strong public sector growth for his firm.

Alan Downey, former head of public sector in the UK at KPMG, says the UK government was probably right to demand better value from consulting spending. But now the public sector must ensure it has the skills and capacities for the mobile digital era. To ensure value for taxpayers, it must be able to undertake everyday digital tasks and the knowledge necessary for skilled procurement, buying expensive advice only for non-recurrent tasks, he says, or those that are quite novel to government.

Pioneering projects, he notes, now sometimes draw on the expertise of consortiums that may embrace academics and voluntary organisations as well as consulting firms.

Another significant change in the UK, highlighted by Alan Leaman, chief executive of the MCA, is market fragmentation, as powers have been devolved to regions, agencies and trusts, for example. In addition, individuals and networks of associates (including victims of lay-offs) with specialist skills have emerged to bid for contracts.

Government has tried to facilitate small-firm bidding with its ConsultancyONE procurement framework. But Mike Straw, chief executive of consultancy Achieve Breakthrough, says he has never heard of it. Rather, work comes via recommendations from satisfied public sector clients such as hospitals. Global firms meanwhile continue to play a valuable role in transferring ideas, experience and consulting capacity across borders. Whatever the politicians do, the public sector will continue to need advice on adapting to change.

Opinion divided over dedicated online teams

Branding

Some companies see 'digital' units as innovative, others dismiss them as marketing hype with little strategic value, writes *Rod Newing*

As companies feel the impact of digital developments on their brands, consulting firms are forming internal teams or acquiring young specialist businesses to create dedicated online units.

Firms need significant alliances, says Paul Connolly, director of the Management Consultancies Association Think Tank, particularly with technology, social media or digital companies.

"They don't wear a collar and tie, appear corporate or look at home in a consulting firm," he says. "They are a bit different and don't necessarily fit a standardised corporate mould. They think differently and have different perspectives."

It is a question of translating "the radical implications of something potentially amorphous and intangible that is only recognisable by its works", Mr Connolly adds. "They can turn it into financial, recruitment or business model implications that the captains of industry can get their heads around. There is a continuing role for those with a respectable, high brand value."

Deloitte Digital was set up in April, 2014. It brought together people from across the firm, including experts in design and art.

"The digital arm of an organisation needs to speak with a different voice, to address the changing online world," says Royston Seaward, a partner at Deloitte Digital. "The idea is not to move away from 'Deloitte', but rather to establish a slightly different brand and team that is associated with an edgy, innovative way of working."

However, Pat Sullivan, research vice-president at Gartner, the analysts, is sceptical about the rebranding efforts of many firms. "Repositioning is easy from a marketing perspective," he says. "They can aggregate and combine businesses and put on the 'digital' label, but they are not changing what they do, how they do it or their business model. It really is marketing hype right now, rather than a reality of fundamentally changing things."

Other firms are making no specific response or changes, asserting that digital has never been a separate issue and has always been central to all their work. "We think 'digital' is pervasive, so why separate it from the rest of the firm?" says John Levell, EY's UK and Ireland head of digital.

> 'We think "digital" is pervasive, so why separate it from the rest of the firm?'

"It is easy to get distracted by attractive digital 'packaging' of a standalone function," he says. "But putting a team into a little box on its own can make it more difficult to take a properly holistic perspective when it comes to delivering sustainable outcomes for clients. Our values and culture already sustain a high level of diversity and skills, which really supports the creativity and innovation that digital requires."

Digital certainly requires a wider range of skills than firms have traditionally had available internally, hence the move to acquire some of the younger, more nimble companies specialising in tech and media.

Donald Shields, head of digital transformation at Cognizant in the UK, explains that the online challenge was originally seen as an add-on to existing brand communications, so working with a small digital agency was all that was required.

Consumer behaviour, however, has since been totally transformed by the online world, so the digital strategy of a business is often fundamental to its overall strategy and goals. "With this increased significance, companies now need partners that can provide more than the traditional consulting services," he says. "They must offer a wide breadth of digital expertise to help them truly integrate digital with the rest of the business."

The disruptive nature of digital could still have an impact on branding. With a move from advice to providing fully operational specific solutions, new business models will be required. This includes working with clients under different names to produce narrow industry-specific solutions. One example is Accenture setting up Taleris, a joint venture with GE Aviation to help airlines and cargo carriers increase efficiency through data analysis and optimisation.

Mr Connolly says digital is a "known unknown" for many clients, which will continue for some time to choose trusted advisory brands to disentangle and demystify it for them.

"Members are radical about digital," he says. "In terms of scale and impact, more than 60 per cent say it is comparable with the industrial revolution."

Disruptive technology lies behind growth

Digital and technology services increased their share of consulting revenues in the UK by 6 per cent in 2013 and now account for a quarter of income, according to the Management Consultancies Association.

While previous growth reflected broader technology trends, this is coming from disruptive technologies, such as social media, the cloud, analytics, mobility and 3D printing.

"Digital can be harnessed to create value, but this requires a level of imagination and creativity," says Alwin Magimay, partner and head of digital and analytics at KPMG.

"Successful consulting companies will focus on the network and ecosystem of innovation and start-ups.

"The pace of change is accelerating, but there is still some way to go [for digital]."

Rod Newing


Alwin Magimay

Fees based on results begin to challenge old-style bills

Payment Businesses can now mix and match models for a tailor-made solution, says *Paul Solman*

The digital revolution has created new opportunities for consulting firms with more services to offer and more ways to deliver them.

But as the market expands, consulting firms face a broader range of competitors and an environment in which traditional "time and materials" billing is giving way to alternative fee systems, such as payments based on results.

"Clients are looking to technology to grow businesses and cut costs," says Fiona Czerniawska, joint managing director and co-founder of Source for Consulting, a specialist research group.

"Because no one firm has everything that clients want, there are openings for other businesses that are not traditional consulting firms, such as creative agencies working with clients on digitisation, and companies like Google and Amazon offering IT services."

"Digital projects have risen sharply in the past few years," echoes Alan Leaman, chief executive of the Management Consultancies Association (MCA), the UK industry group.

But he feels that much of the increase in competition is caused by consultancies branching out, rather than outside competitors poaching on consulting firms' territory.

What seems certain is that the new world offers enormous opportunities for consulting groups. Tools such as mobile applications and data analytics allow consultants to be increasingly creative in applying their knowledge to benefit clients, and to broaden the range of services they provide.

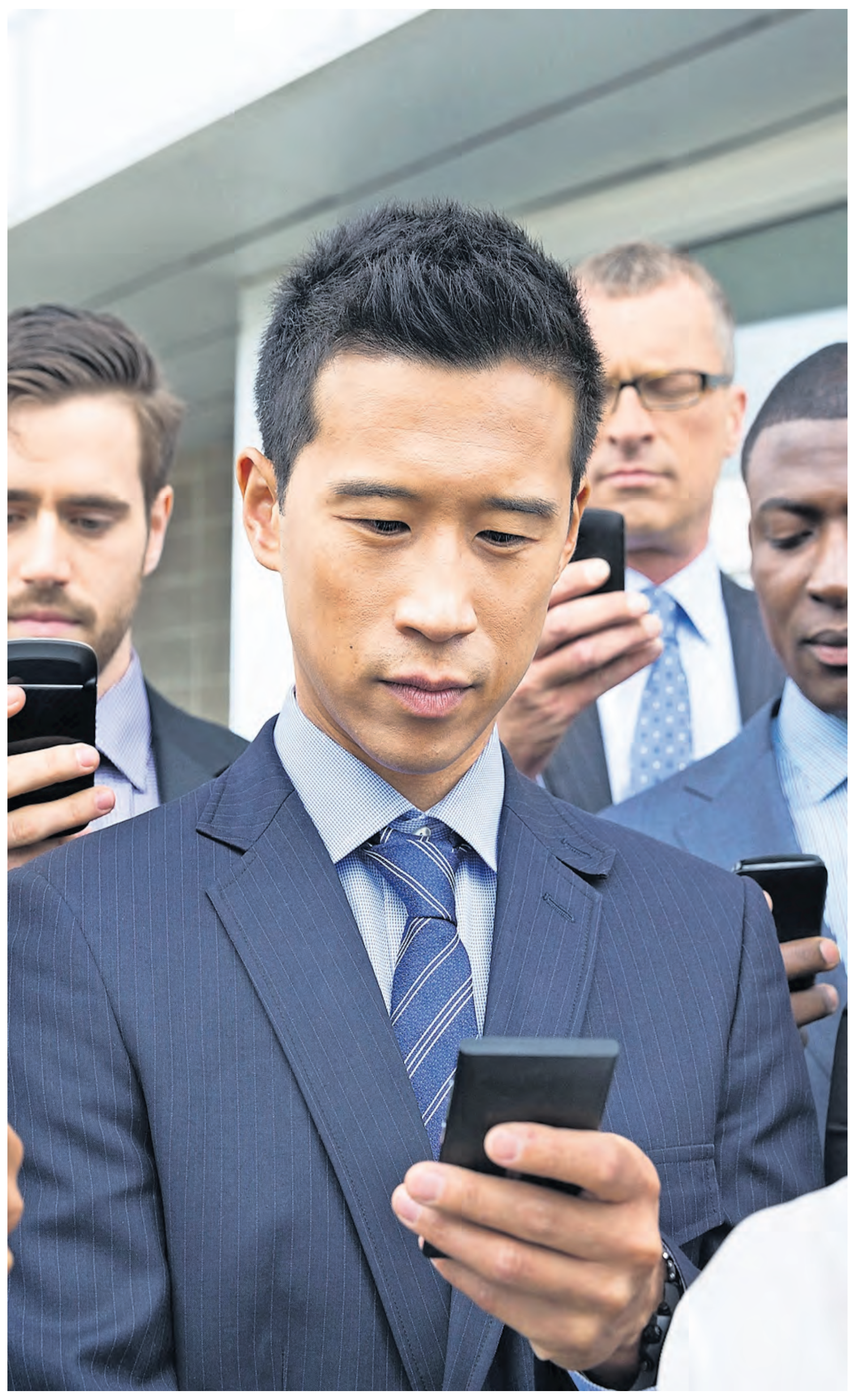
"We are seeing the next evolution of the consulting landscape," says Bob Sternfels, a director at McKinsey and leader of its new client delivery models. "As well as traditional consulting – insights driven by smart people – there is a push for a mix of data, tools and analytics."

One aspect of this evolution is consulting firms' moves to offer predefined products – though many in the industry prefer the term "solutions".

About 90 per cent of consulting groups are making efforts to "productise" parts of their work, says Ms Czerniawska. "It's a way to take out costs from the business and still charge clients a traditional fee rate, and as such it's an important part of most firms' strategy."

"Solutions are a response to clients' need to solve industry issues rather than use traditional consulting," says Michael Robinson, UK head of management consulting at KPMG. "Solutions also help firms to align prices with outcome. As clients become more sophisticated, you now have a range of ways to bill clients, from traditional time and materials, fixed price, through to fees that are 100 per cent contingent on performance."

Fees based on consulting groups' performance are growing in importance, though they still represent a small proportion of the overall market.



Smart moves: mobile apps can help consultants be more creative — Hero Images/Alamy

"The common theme is what clients are looking for in services. Gone is the world where there is outsourcing, where you give the whole thing to somebody, and consulting, where you ask them for advice," says Ms Czerniawska.

"Now there is a more indistinct range of services – a continuum, if you like. And clients often say they are interested in something that mixes and matches different models within that. So they might not want to outsource their IT function but appoint a consulting firm to come in and run it for them for a couple of years, and then give it back to them in a more efficient fashion."

Mr Sternfels explains further: "There is a real desire for impact and outcomes versus pure insights… That's pushing not only for new tools but for different profiles of people to be assembled by firms."

Consulting firms' business models could start to reflect these developments, he believes. "People models could start to change; there will be lots of different talents who will have different expectations, different compensations and different rewards."

Jason Gordon, the partner leading value-based billing at Deloitte, says: "All these changes do have impact on talent management, recruitment and the traditional pyramid shape [of consulting firms' management structure]. "

The model is also sensitive to last minute changes, says Ms Czerniawska: "A consulting firm is like a fighter plane – it's designed to move around quickly but that makes it unstable as an entity. Firms hope products will make them easier to manage."

Consulting firms seem to be recovering from the effects of the 2008 financial crisis. And there is evidence that services the firms offer are valued by their clients. On average, consulting projects in the UK generate benefits for clients worth £6 for every £1 spent in fees, research carried out for MCA shows. Yet the consulting market is still challenging, says Mr Leaman, and like most businesses and industries, management consultants face pressure on margins.

Average consulting fees have not increased since the financial crisis, says Ms Czerniawska.

"In the UK, the average fee rate is about £1,200 a day, down from about £1,500 in 2006," she says.

Uptake of risk and reward model still low

When Coventry City Council engaged iMPOWER to cut its spending on transport for special educational needs children, the consulting firm's pay was based on performance. The contract with the local authority in central England stipulated that 50 per cent of the fee depended on spending being reduced by at least 25 per cent.

Fees based on outcomes – also known as risk and reward or contingent fees – are a growing trend in the consulting sector, though they still account for only 12 per cent of all consulting, compared with about 8 per cent a decade ago.

"The main reason why outcome-based projects have not been taken up more quickly is the complexity of the arrangements," says Fiona Czerniawska of Source for Consulting.

Martin Cresswell, chief executive of iMPOWER, says: "Risk and reward can provide the appropriate incentives for the provider and client to focus on the right behaviours to deliver agreed outcomes."

Michael Robinson, UK head of management consulting at KPMG, says: "There are a small number of cases where 100 per cent contingent can work. If consultancy doesn't achieve results, it doesn't get paid. But it does require a high level of sophistication on the part of the client as well as the consultancy."

Integrated solutions tackle specific issues

Once, the standard way for a consulting firm to serve clients was through a team of experts providing advice for a daily rate. Now firms offer named products, or "solutions", where consultants are engaged to implement a predefined approach to a specific issue or problem.

Global firm McKinsey, for example, offers a wide range of solutions, such as Finalta, which helps financial institutions find ways to make improvements by comparing performance with their peers; ClickFox, which uses data analytics to provide clients with a detailed map of their relationship with their customers; and Performance Lens, which provides market information and sales analysis for asset managers.

"The consulting industry's migration to solutions is a combination of things put together to deliver a higher impact," says Bob Sternfels, McKinsey director and leader of the firm's new delivery models. He identifies what he calls three archetypes of integrated solution: data-orientated, tool-based, and analytic capability.

"Products don't mean that every client gets the same thing," says Jason Gordon, the partner leading value-based billing at Deloitte. "Products are a way of delivering high value to client in a way that is sensible for the client and the firm."

New models redefine competitive landscape

Continued from page 1

the game, [clients] think: 'How can I play differently?'," says Liann Eden, founding partner of Eden McCallum, which operates what it calls a "pure consulting" model, bringing together bespoke teams of independent consultants to tackle clients' specific needs.

The movement could be characterised as a combination of shift and drift. As demand for some services declines or margins diminish, companies, forced to move into new areas, shift their own position deliberately, or drift into adjacent areas involuntarily.

At the same time, competition both for business – and for deals – is increasing between consulting groups and companies from outside the sector that realise they can offer their industrial expertise as a service.

For example, Cardinal Health, originally a US pharmaceuticals distributor, made a calculated decision to move into management consulting for hospitals, building on its knowledge of healthcare supply chains and regulations.

Advertising agencies are making use of their knowledge of digital media – and their deep network of corporate customers – to compete with traditional consultants in selling advice about the digital revolution. Publicis' purchase of the consultancy Sapient, announced last week, will further blur the distinction between the two sectors.

Technological change is a battleground to which most consultants have shifted resources in recent years. Rich Lesser, chief executive of the Boston Consulting Group, established BCG Digital Ventures in January to "help clients build digital products and services".

The company-within-a-company is staffed by what BCG calls a "multidisciplinary group of professionals".

At almost exactly the same time, Accenture established Accenture Strategy with 8,000 consultants (out of a workforce of 305,000), half of whom are technology strategists and half business strategists. Andy Tinlin, head of Accenture Strategy in the UK, says its consultants' role has "evolved from being either an adviser or an implementer to being much more a hybrid of the two".

Companies such as BCG, McKinsey and Bain, among the traditional "strategy houses", tend not to talk publicly of large technology-based groups such as Accenture and IBM as direct competitors, and vice versa. But it is no surprise that such cross-disciplinary and hybrid teams are proliferating, and starting to bump into each other in the field.

Perhaps only when the tag "digital" is so ubiquitous that it becomes superfluous will it be possible to assess which companies have the best skills and model for the new world.

> The technological challenges consultants face are 'the four horsemen of the apocalypse'

Tom Rodenhauser, managing director of advisory services at Kennedy Consulting Research & Advisory, describes the technological challenges consultants face as "the four horsemen of the apocalypse": social media, cloud services, analytics and mobility. But they represent an opportunity as well as a challenge. The fact people are increasingly active on social networks and via mobile devices is as much a societal as a technological transformation. It goes to the heart of how businesses operate.

"When consultants talk about digitisation, what they are really asking is: how are these phenomena affecting the way businesses operate and how can consultants facilitate that? And I don't know whether they have the answer," says Mr Rodenhauser.

Even if they do not, they have little to worry about for now. Figures collated by Kennedy for its 2014 Global Consulting Forecast show revenue growth overall accelerated from 3.7 per cent in 2013 to 4.6 per cent this year. A resurgence in merger and acquisition activity and advice, information technology integration and cyber security consulting, and strategy and operations work related to companies' growth initiatives, has pushed annual revenues in the industry towards $247bn.

The Big Four accountants-turned-advisory-groups show some of the strongest growth in the top 10 consultancies – a sign perhaps that their bet on becoming large-scale one-stop shops is paying off.

No wonder that against this backdrop of growth in standard consulting services, innovative developments such as crowd-sourced strategy-making seem to pose little threat. BCG's Mr Lesser says consultants can still offer "deep understanding of economics and competitive advantage, customer needs and rapid technology evolution in many sectors. I don't see crowdsourcing being able to implement that in a world of resource constraints and intense global competition". To be fair, neither do the crowdsourcers themselves.

Ms Lagerberg says that once Grant Thornton has examined the outcome of its "jam", "we may go back to some of these traditional consultants to say: 'We want you to help us achieve this'".

Similarly, Mr Thomond at Clever Together says the business world is "always going to need super-high-end brains to solve super-complex problems". He adds: "We're not here to eat [consultants'] lunch, we're here to eat some of the crumbs off the table."

Yet all those nibbling at the growing consulting pie are hungry for more.

Contributors

Liz Bolshaw
Freelance journalist

Emma Boyde
Commissioning editor, special reports

Andrew Hill
Management editor

Rod Newing
Freelance journalist

Gill Plimmer
Reporter

Paul Solman
Freelance journalist

Ross Tieman
Freelance journalist

Hugo Greenhalgh
Commissioning editor

Steven Bird
Designer

Andy Mears
Picture editor

For advertising , contact:
Stephanie Collier,
stephanie.collier@ft.com,
+44 (0)20 7873 4597,
or your usual FT representative.