

The Management Consultancy Industry – An Analysis

Part I – Current State

The management consultancy industry shows a very fragmented picture with various segments and player groups. This first part of the industry analysis starts with an analysis of the market segments and player groups. Afterwards it will elaborate on the competitive situation. The second part of this analysis – Future Prospects - discusses driving forces and possible futures for the industry.

This paper focuses on the German market, for which it provides figures and statistics. All statements about trends, competition, drivers and possible future developments, however, can easily be transferred to management consultancies in all major markets.

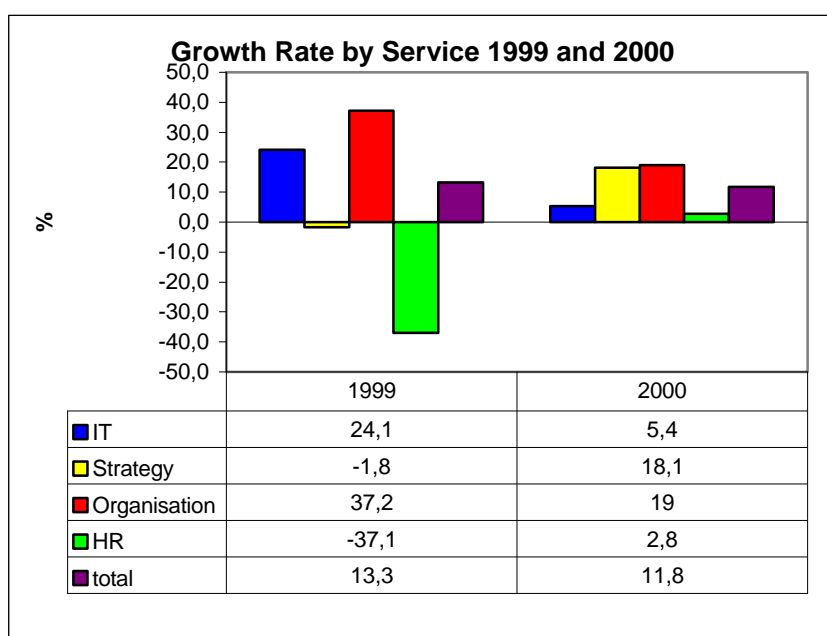
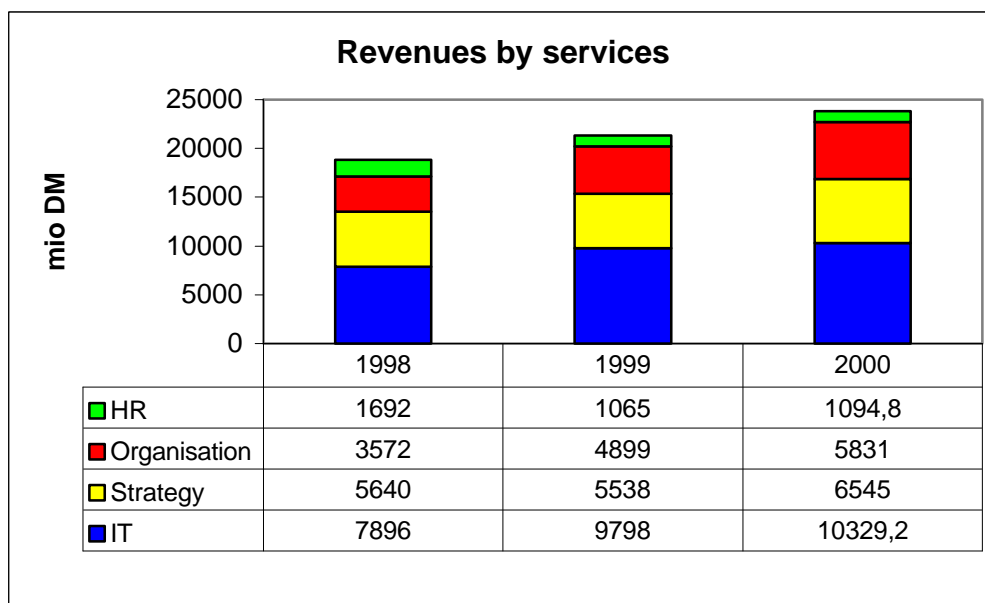
1 Market segments

In Germany there are 14700 management consultancies and sole practitioners. They employ 68000 consultants.¹

The market for management consultancy in Germany has shown rapid growth throughout the last years. Total revenues rose from 16.4 bn DM in 1997 to 18.8 bn in 1998, 21.3 bn in 1999, and 23.8 bn DM in 2000. Although the annual growth rate declined from 14.6 % in 1998 to 11.8 % in 2000, it is still significantly above the growth rate of the German GDP, being below 3 %. However, growth is not equally spread across the market segments.

Today management consultancy is much more than the traditional strategy consulting. The Bundesverband Deutscher Unternehmensberater e.V. (BDU, Association of German Management Consultants) distinguishes between consulting for strategy, organisation, IT and human resources. Analysis of these segments reveals their different contributions to overall revenue and growth:

¹ All figures and statistics are derived from press releases of the Bundesverband Deutscher Unternehmensberater e.V.



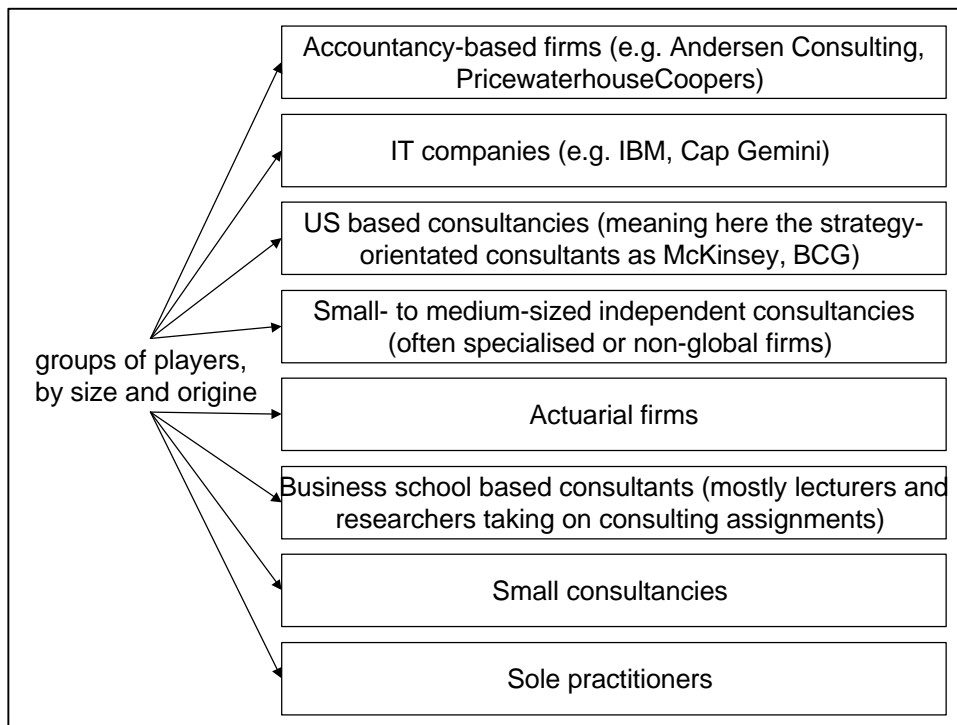
These figures indicate that IT- and organisational consulting fuelled growth in 1999. This was driven by the current developments in the IT-sector. The BDU names year 2000 solutions, Euro-implementations, SAP implementations and e-business activities. These changes in the customers' environment change their industries more or less and hence create enormous needs for consulting. Without the impact of Y2K and Euro-implementation, the growth of IT consulting slowed down in 2000. However, this sector remains the most important field of consulting with 43.4% of total consulting revenues in 2000. The BDU predicts, that the proportion of consulting projects that include at least partly some e-commerce consulting, will grow from 38% in 2000 to about 50% in 2001..

All in all the whole industry shows a dynamic growth. Besides the influence of IT this is driven by globalisation, technological change and the deregulation of markets.

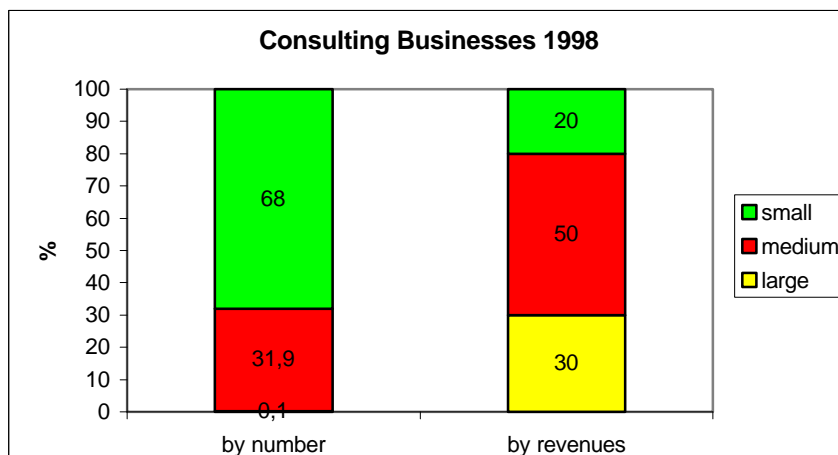
2 Player groups

In recent years the industry has seen the entry of many non-traditional consultants into the market. Barriers to entry are considerably low with little investments into fixed assets needed. In addition – on the contrary to the auditing business – there are no legal regulations limiting the entry to this profession. Many former employees of large consultancy firms or senior managers from other businesses start up as sole practitioners or small consulting firms. On the other hand, many companies from outside the consulting industry enter this market. These are mainly IT-companies as IBM or Cap Gemini, but also designers, technologists, marketing agencies, employment agencies and others.

Rassam (1998) distinguishes as follows:



In Germany there are 14700 consulting businesses employing 68500 consultants. The BDU distinguishes small, medium and large consultancies. Not surprisingly, the large consultancies, being smallest in numbers make nearly a third of the total industries revenues:



This is an ongoing trend. By 2000 the market share of large consultancies has risen to 47%, share of medium sized firms fell to 36% and share of small firms fell to 17%. This is because large firms show by far the highest growth rates with an average of 18% in 2000. Medium and small firms grew by an average of 9% and 2.5% only.

With this small number of large dominant players the market can be characterised as an oligopoly. Competition is especially strong within the market segments and within the player groups. Due to the limited growth rates in some segments and the entry of new players there is also a rising competition across the segments and player groups. Smaller specialised consultants start to serve customers of all sizes. The large consultants discover small and start-up enterprises as customers, seeing them as future clients for further consulting and auditing activities.

According to this competition consultancies have developed different strategies. The large consultancies establish themselves as generalist. They offer their clients a one-stop-shop service for all the consulting needs they might have. Thus their focus is on long-lasting customer relationships and cross-selling opportunities. Many smaller and medium sized consultancies have specialised in certain areas of expertise like IT, HR or business recovery. A number of them operate only in their home area.

An important area of competition in consulting business is the supply-side. Consultancies compete heavily to attract highly qualified people. Demand for these people is rising due to the growth aspirations of the large consulting firms. The German member firm of PricewaterhouseCoopers created more than 1000 additional jobs during its first year after the merger and still continues to grow at high rates. On the other hand, many graduates from universities and business schools choose to join start-ups in the "new economy" in 2000.

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Literature Recommendations:

James, Rassam (1998) In Sadler, P. (ed.) Management Consultancy – a handbook for best practice. London: Kogan Page Limited