

The Management Consultancy Industry – An Analysis

Part II – Future Prospects

The management consultancy industry shows a very fragmented picture with various segments and player groups. This first part of the industry analysis – Current State - has analysed the market segments, player groups and competitive situation. This second part of this analysis discusses driving forces and possible futures for the industry.

1 Driving forces

The major driving forces in the consulting industry are all changes in the clients' environment, the rising competition within the industry and the developments in the areas of IT and communication.

Today nearly all industries are undergoing massive change. IT has the potential to reshape most industries. These developments foster changing consulting needs at the clients' side:

- Advise about their strategic direction according to these changes,
- Help in planning and implementing the necessary changes.

For consultants this implies that they have to be prepared to provide these newly needed services. They have to adopt latest trends in technology and economy even more quickly than their clients. Thus – due to the variety of clients industries and developments there - the needs for consulting services are very dynamic and complex. Consultancies are steadily forced to respond to these dynamics.

The trend for globalisation in many industries drives consultants to globalise as well. Most clients wish to get a consistent service from their consultant for all their subsidiaries, wherever they are.

The rising competition forces consultancies to continuously look out for new business opportunities and rethink their competitive position in relation to existing and newly entering competitors.

IT and communication not only change the clients consulting needs but also the processes within the industry. To give just some examples - the use of means for sharing knowledge and information enables better knowledge management and the work in "virtual teams" – people spread across the world working on the same project linked through the companies intranet. Smaller consultancies can overcome the constraints of location and cooperate in virtual networks.

2 Future developments

2.1 Markets and market segments

For the overall market of management consultancy a further growth can be expected. Technological and political forces expose companies in all industries to continuous change.

After former waves of lean management many companies are left with insufficient management capacity and –expertise to handle the resulting corporate change processes internally. This creates an ongoing need for consulting services.

The total market growth might slow down a little bit, but will remain considerably above the German GDP-growth. There will be considerable shifts amongst the market segments. Traditional management (strategy) consulting will stagnate and nearly merge with IT consulting. Besides IT, major areas of growth will be knowledge management and organisational learning, HR-management, change management and the development of global strategies.

In general, there will be a shift from traditional advise to implementation. This implies that clients will express the wish that their consultants share more risks of the projects. Payment structures might shift from hourly fees to flexible, return related payments or even equity stakes. Consultancies might learn a lesson from venture capital firms in this area.

The management consultancy market is less dependent from changes in business cycle. Whether boom or recession – clients will always need expert advice to manage their growth or to restructure their business in a declining market. As James (1998) stated: "The only thing that could seriously threaten the profession of change is if the world as a whole entered a period of protracted stasis. What if things stopped changing?"

2.2 The players

With the expected good preconditions on the markets there are good prospects for all types of players. Many experts¹ suggest, that the large players will continue to become generalists and the small players will seek their fortune in becoming specialised niche players.

As for the large players we will see a continuing concentration to gain market share and market power. There are two options. The handful of big market leaders could merge amongst each other to form a maximum of big three at the end of the decade. In addition, large but not that big firms might merge to form new entrants into the group of really dominant players. On the other hand each of today's market leaders could seek further growth, especially in attractive new market segments, by acquiring medium and small consultancies with high specialisation and good reputation. Both possible developments lead to an enormous concentration in this player group which is followed by even heavier competition.

In the segment of large consultancies, the accountancy-based ones have already started to separate from the accounting houses. This trend is enforced by the SEC which requires total independence of auditors of the companies quoted at the stock exchange. Therefore the Big Five's strategies to offer a broad range of consulting services to their auditing clients came into conflict with SEC regulations. In the result, the former consulting arms of the Big Five will

¹ BDU (2000), James (1998)

gain the freedom to act independently from the auditing businesses constraints. This will make them even more aggressive and competitive.

Smaller consultancies will continue to specialise. This can provide a stable market position, but – as demand changes – might leave some of them unprepared for the new trends. The result is a polarisation of large globals and small niche players, leaving a lack of service to the SMEs that are not attractive clients to both of these groups. This under-serviced middle segment creates three options: large consultancies could develop effective ways to operate in this sector; small firms could network to fulfil the complex needs of SME-clients forming ad hoc virtual medium-sized consultancy on a project basis; there could be a renaissance of the of the real medium-sized consultancies.

Other changes in the field of players will occur through new entrants. Attracted by the impressive market growth and chances for cross-selling many non-consultancies will establish consultancy-divisions. IT-firms have shown the way. Banks are likely followers. Some of them already have such consulting subsidiaries², but mainly for supporting the banks clients, which came into problems. The banking businesses will provide excellent market access to these entrants. Telecommunication companies can provide professional advice in the area of IT. Nearly every company who has expert knowledge in certain areas could extend this to consulting services for its customers. In addition, further entries of sole practitioners and small consultancies can be expected.

This wave of new entries will have a double effect. It will increase the competition, thus leading to more mergers and acquisitions, but also to some breakdowns. Further, because there are no legal regulations who is allowed to call himself a consultant, there will be quality problems in some cases which could damage the reputation of the whole industry.

2.3 Other aspects

Recruitment will remain a problem. Especially the large firms compete aggressively for the so-called "high-potentials". A price war and decreasing loyalty of key staff could be the result. Smaller firms will try to overcome their handicap in hiring good people in creating new working-styles and corporate cultures that are attractive for more entrepreneurial-minded people.

The rising complexity in the consultants and their clients' environment makes the use of knowledge management systems key.

The large consultants will face some structural problems. These are embedded in their structure as partnerships, which limits their ability to raise capital and slows down decisions and changes, in their globalisation, which causes problems to form a global internal but local external culture, and in the concentration process, which needs enormous management capacities to solve post-merger-integration-problems. In the result some of the big firms will

² e.g. DMC Dresdner Management Consulting, a subsidiary of the Dresdner Bank AG

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consider going public. More important is, that they might loose a bit of their market-focus, being to busy with internal problems. This would be an opportunity for other players to enter some poorly serviced fields.

3 Critical success factors for consulting businesses

Basing on the current and possible future situation of the industry there are the following critical success factors:

- **Knowledge and knowledge management**

The industry is highly based on experience and brainpower. In a world of growing complexity it is critical to ensure sufficient distribution of the existing knowledge throughout the company. This allows an optimal utilisation of the internal resources and the staffing of each assignment with the best available people.

- **Innovation**

Innovation includes the constant monitoring of the environment. It is important to develop solution for new issues as soon as possible to have them at hand when the clients realise the problems. Ongoing in house adoption of latest developments in economical science and technology also provides skills and experiences that can be sold to the clients.

- **Reputation / quality**

As a service industry consultancies rely much more on the clients perception of their work and on their reputation. This is the basis for the acquisition of new clients as well as for the development of long-lasting relationships with existing clients.

- **Networking / alliances**

Especially smaller consultancies need to develop a network of alliances to create awareness for themselves and to increase their range of services offered through cooperation with other consultants.

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Literature Recommendations:

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