by Gill Ringland and Azfar Shaukat

Table 1: Top 15 global consulting firms based on 2002 revenues

Rank	Firm	2002 Global Consulting Revenues (US$ million)
1	Accenture	$13,105
2	IBM Business Consulting Services	$13,074
3	Cap Gemini Group	$7,047
4	McKinsey & Company	$3,300
5	Deloitte Consulting	$3,150
6	Mercer Consulting Group	$2,620
7	Bearing Point	$2,367
8	Booz-Allen & Hamilton	$2,300
9	Hewitt Associates	$1,720
10	Towers Perrin	$1,440
11	A.T. Kearney	$1,080
12	Boston Consulting Group	$1,020
13	American Management Systems	$986
14	Bain & Company	$825
15	Watson Wyatt Worldwide	$710

Source: (Kennedy, 2003)

An uncertain future for management consulting

What will the world of management consultancy look like in 2020?

After decades of astonishing growth in which the management consultancy industry has trebled in size to $120 billion per year over eight years, the future looks decidedly uncertain. A variety of complex forces have converged, squeezing the industry in many dimensions simultaneously, with far-reaching implications to its structure and future.

What is happening now?

Management consultancy is at present dominated by relatively few large firms. Table 1 shows the Top 15 by revenue in 2002.

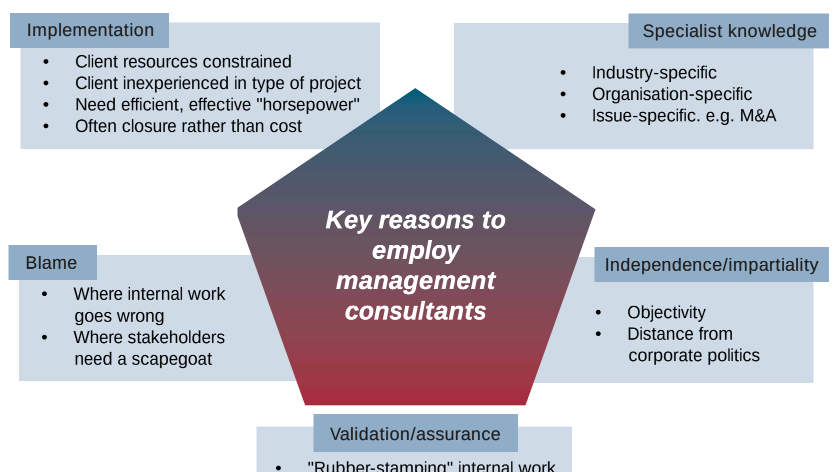
The Top 15 are different in many ways. The three largest all combine IT outsourcing and systems integration with management consultancy, with IBM having purchased PWC Consulting and Cap Gemini buying Ernst and Young. American Management Systems also combines IT services and management consultancy.

McKinsey, Bain and Boston Consulting Group have never been part of an accountancy practice, whereas Accenture, Deloitte

Key messages

- Future growth for the sector is distinctly uncertain.
- Complex forces are currently affecting the sector, with far-reaching implications for its structure and services.
- Three scenarios for management consulting are examined in detail.

Figure I: Why organisations use management consultants



Source: MCA, IMC, AMCF, Capital Energy research

and Bearing Point spun out of Andersen, Deloitte's and KPMG. Bain has strengths in venture capital and finance functions. Mercer Consulting, Towers Perrin, Watson Wyatt and Hewitt Associates have a focus on human resources, and Mercer in particular has grown through acquisitions. AT Kearney is now part of EDS, and has for many years been strong in manufacturing. Many of the Top 15 are in private hands, often owned by the partners or senior staff.

The industry is now large enough to have a major economic impact, and has been attracting academic interest. Among professional services, management consulting stands out for at least four reasons:

- Unusually for a services industry, it is dominated by relatively few firms; in 2002, more than half of worldwide management consulting revenues were earned by the Top 15 firms.
- 'Graduates' of the Top 15 have, over the last half of the 20th Century, been seen as natural candidates for top management, with many leaders in large organisations having done stints as management consultants.
- More recently, the top firms have become front page stories for the wrong reasons, with Andersen's role at Enron only one of the most visible stories.
- The visible and hectic rate of aggregation and break-up of the accountancy-based 'Big 8' consulting firms.

External challenges

The following factors contribute to a formidable array of external challenges for the industry:

Trust in consultancy companies and their ethos. Corporate confidence in consulting was severely shaken by the Enron affair, but had been shaky before then. Many large companies had become cynical about consultancy companies' offerings at a strategic level, following a sequence of consultancy-initiated re-organisations.

Impartiality and confidentiality. The smaller pool of consulting firms is causing concern among clients over their ability to maintain confidentiality between competitors in the same industry sector.

Increasing buyer sophistication. Major companies have become more sophisticated and many executives are familiar with management consulting firms, services and their motivation. They expect more tangible returns on their investment, at lower cost, more involvement by the consultants and shorter, discrete projects. The value proposition is increasingly being questioned.

Devolved client organisations. Large consulting firms have always aimed for their large clients to use a majority of their own staff on long-term projects. However, such opportunities are diminishing as corporations and governments continue to seek to operate without corporate centres and with devolved authorities. These organisations are likely to need consultants to fill some of the gaps formed through their reorganisations. but will invariably have distributed budgets and offer less follow-on work.

Lack of a clear 'next big thing'. Services provided by consultants are increasingly seen as commodity, with no distinct 'next big thing'. Claims for new 'magic bullets' promising dramatic savings and competitive advantage are treated with cynicism.

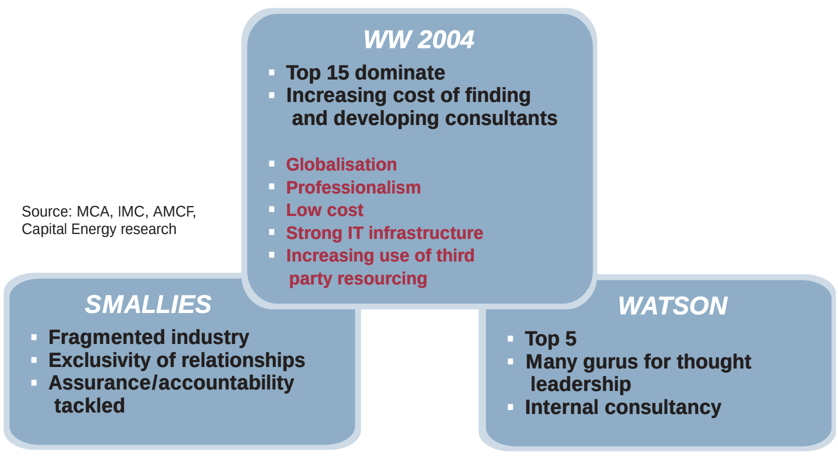
Competition. Competition to the 'pure' management consultants is coming from many directions. HR consulting firms are becoming focused on implementation assistance, competing with management consultants. Offshore service providers are heading to onshore markets; the Indian firms Infosys, Smaller, niche consultancies and internal consulting groups compete in specific sectors or functions. These factors mean that consultancies are not able to plan on the basis of growth in their business.

Internal challenges

Consultancy firms also face a number of internal challenges. Post-merger cost-cutting has followed the consolidation of consulting firms. Newly constrained career opportunities and waves of redundancies have impacted morale within consultancies, meaning that the traditional 'pyramid' structure of consultancy organisations is no longer valid. Management consultancy is less attractive to the best students.

References are available at www.ebfonline.com

Figure 2: Management consultancy in 2020



Dealing with mergers and acquisitions. Mergers and acquisitions are difficult in 'people'-based organisations with strong cultures, such as consultancies (Empson 2000). Further, the cultures of IT companies and strategic consultancies are very different.

Problems of size and scale. As the size of firms increases, how can they effectively share knowledge and build on past work in different geographies and sectors?

Partners' capability to withstand lawsuits. The partnership arrangement used traditionally by consultants is in question in an age in which lawsuits are common and can involve very large sums (Greenwood 2003).

Internal strains. The number of IT firms/systems integrators is increasing. Global spend on IT will more than double, from around $300 billion in the late 1990s to $727 billion by 2007, according to OECD, requiring large numbers of new firms in the market.

Figure 1 shows that management consultants may be called in for five rather different reasons. The challenge of effective implementation is one of the key dynamics of using outsiders, who are used to taking charge and making change, in a way that is difficult inside the organisation. Blame and validation are two sides of the same coin. The independence/impartiality of a consultant's work is the most difficult to achieve.

How is the world changing?

In order to focus our discussion on the future, we have chosen a time horizon of 2020 to align with a number of future studies (Foresight 2000, Schwartz 2003, Shell n.d.) which give a context for our analysis of management consultancy.

The main theme of the business environment between now and 2020 is instability and change. In Europe, the enlargement of the EU to 25 countries and the ensuing political changes will result in large-scale migration and cultural pressures as well as economic imperatives. The ageing population in Europe will put pressures on the welfare state (Heller 2003).

There will also be major shifts in the centre of gravity of world economic activity. Economists predict a period of steady worldwide growth on the back of the industrialisation of China and India and the information, communications and telecommunications (ICT) revolution. Whole industries in the US and Europe will move major functions offshore, as has already happened in much of manufacturing and IT. Within this context, trends in the business environment that specifically relate to consultancy include the following:

Increased qualifications and information access. MBA and specialist postgraduate degrees and diplomas are part of every manager's CV, leading to increased functional competence. The difference between consulting, finance and industry has narrowed so people are portable at all levels.

Regulation and governance. Drives for increased professionalism and licensing may come from inside the industry or from the public sector. By 2020, management consultancy may be a licensed profession for new entrants.

Distance not an issue. The influence of ICT has not yet been played through. Early manifestations have been the ability to run three shifts around the clock and around the world, passing work between teams.

Increased use of third-party resourcing. The growth in demand for IT services, and for ‘making it happen’, whether through outsourcing or consultant projects which are implemented in-house, is leading a new wave of third-party resourcing. Cost is a factor, but capability is more important.

Scenarios for 2020

The scenarios described below were built over three sessions involving some 120 people, both consultants and industry clients, with extensive desk research in between. The first session reviewed the recent history and status of he industry. The second built the outline scenarios. The third reviewed and extended them from the point of view of the small or niche consultancies.

All the scenarios shared the business environment described above. But the effect on the management consultancy industry was different according to the answers to three key questions:

- Organisation motivation: what will be the focus in terms of organisation motivation for using consultants (cost reduction, innovation and so on)?
- Paradigm changes: will the shape of management consultancy change? Does the paradigm change? Will management consultancy continue to be desirable as a career? How far can virtual firms be effective?
- Global market *vs* local specialists: is the profession dominated by global suppliers or niche suppliers? What is the balance?

From possible answers to these three questions, eight scenarios were generated. These correspond to one ‘business as usual’ scenario (WW2004), and two in which organisations were concerned with innovation and new business. Figure 2 summarises the themes of each of the scenarios.

WW2004

By continuing existing trends, we can describe a management consultancy industry that is driven by stakeholder pressure in the *S&P 100* and *Fortune* worldwide lists. Smaller companies are driven by globalisation and pressures of new competitors. Organisations have easy access to comparators for ‘best in class’ practices and processes. One role of the consultant is to ‘be from outside’, and manage processes involving senior people in the organisation.

Consultants are often used for validation and assurance. In both cases the brand of the company and the status of the consultant as expert is a dominant factor. But this lightning-conductor role causes some organisations to hesitate before appointing consultants in case it provokes rumours and tensions which could affect morale.

Organisations often look to buy all the services for a project through a single source, who may also supply the programme management. The consultants may supply scarce skills or warm bodies, or both.

Successful players are both big and small. The Top 15 global players in 2004 are expected to maintain their share of global consulting revenues, with the top 50 earning 95 per cent of global revenues, with the majority of consulting firms competing for the remaining five per cent. Niche players depend on in-depth industry expertise or flexibility of supply of extra bodies. The trend towards offshoring of services has continued, with IT outsourcing the norm and business process outsourcing widespread.

The Top 15 could by 2020 be a very different set of companies from those in 2004, with top Chinese and Indian players dominating in their home and related markets and competing internationally. Some of today's Top 15 firms could be partnering onshore with offshore firms well before 2020 in order to protect home markets, but the US and European markets could become less attractive as they will be characterised by high competition, high operating costs and falling margins.

Smallies (aka Atomic)

This scenario is named after Roger Camrass and Martin Farncombe's book *Atomic*, which suggests that organisations will outsource everything except their core competencies. The paradigm shift is the fact that the small model has been made successful, and that the inherent difficulties – accountability and risk, delivery and resource continuity – have been addressed. Key characteristics of a successful 'smallie' are leadership, quality relationships, network awareness, a facility for co-ordination and knowledge sharing, complementary skills and expertise.

In this scenario, the organisation is probably looking for the special expertise not available through other channels, plus flexibility and speed, plus skill of co-ordination and consultants, with the ability to pull the separate pieces together and deliver results. The motivation may be one of searching for bespoke expertise in reaction to an era of dissatisfaction with off-the-shelf solutions, or a genuine need for depth of knowledge. Cost will most definitely be a factor as expertise and focus go hand-in-hand with cost efficiencies. Quality is bound to be a large factor because virtual teams formed for knowledge and expertise have deeper experience levels, have a bespoke approach, and will allow the organisation to retain control as lead partner. Innovation is a factor because speed and time-to-market are strong features of this scenario.

What would happen by 2010 if this scenario is emerging? We would see a network branding its services, perhaps analogous to the franchising of retail outlets.

Watson World

In this scenario, the Top Five share 50 per cent of the consulting market. The rest is taken by 'the minnows'. This is a world where organisations want to gain access to new ideas to gain competitive edge, but are still very cost-conscious, and they also want exclusivity. These organisations are worried about other clients of the consultancy: they want to avoid situations where their information and knowledge may be shared with others. This concern about independence and impartiality tends to encourage a fragmentation of consultancies.

The major paradigm shift would primarily consist in a shift of thought leadership from outside the Top Five into the hands of individual consultants. These individuals would thus become the new thought leaders, or gurus, and be seen to have their own brands.

The global firms would start to become nuts-and-bolts players handling or managing outsourcing and other functions. There would be co-operation between the Top Five consultancy players and these new thought leaders at the behest of client organisations. These individuals talk and deal directly with the board. The role of the minnows is to provide specialised knowledge of an aspect of a sector.

This scenario sees a growth in internal consultancy, a crack team which has built up experience of 'making things happen'. These internal consulting groups may find it difficult to maintain their internal credibility. Two big global players by 2010, and fragmentation continuing. By 2020 five global management consultancies would operate, with gurus specialising in industries, project phases and function.

Implications for users

How can these scenarios be used to make the selection and use of management consultants more effective. In terms of the selection of consultants, the discussion of the three scenarios has highlighted the strengths and weaknesses of the major players, the recognised brands, versus the 'Smallies'. These include:

Rapid implementation. When the organisation has a clear view of what is needed, but needs to implement faster than it can with its own resources, there are two avenues. The major players may be the best route, but if a knowledgeable project manager is available in-house or from a 'Smallie', putting together a team from a number of suppliers may be preferable.

Blame. When the organisation feels it may need a rescue from a problem area, it is probably advisable to use one of Top 15. This will certainly be the route if the WW2004 or Watson World scenarios prevail. In the Smallies scenario, a prime contractor with a brand would be the focus.

Validation/Assurance. The role of management consultants is sometimes to endorse internal work. This suggests that a Top 15 company or a prime contractor with a brand is required.

Independence/impartiality. In Watson World and in WW2004, the small number of big firms makes this a problem with engaging the major players. Smallies may be better, though not if major parts of their revenue depend on the organisation.

Specialist knowledge. In all three scenarios, this tends to reside with niche players, whether specialists in strategy, industry expertise or a function.

Asking whether to use a consultant may no longer be the key issue. For many organisations, freeing up in-house expertise for at least part of a task may be the answer. Joint teams can be a very effective way of working. And in areas which are not core to the organisation, staffing with consultants or outsourcing is becoming the norm.

Gill Ringland was formerly head of strategy for ICL and is now CEO of SAMI Consulting. Azfar Shaukat is CEO of Capital Energy.

The authors would like to thank attendees at the Strategic Planning Society Workshops and the Richmond Group; Margaret Gold; Roger Camrass of Fujitsu Services, Jonathan Day of McKinsey, Alastair Stranack of Parthenon Group, and Christopher McKenna of Saïd Business School