The Economist

Consulting bounces back

Advice for consultants

Competition is growing, and clients are becoming more picky

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WHEN times are good, they are very, very good for consultants. But when they are bad, they are horrid. As the economy stalled in 2009, the global consulting industry shrank by 9.1%. It was the worst year since at least 1982, according to Kennedy Information, an industry monitor.

Now the kids are back in the conference rooms. Companies that shelved plans during the recession are dusting them off and looking for help. And the work is more cheerful. When bosses did hire consultants in 2009, 87% of projects were aimed at cutting costs rather than boosting growth, says Kennedy. This year, just 47% of project spending will be on cutting costs. The rest will go on growth plans, from mergers to installing new computer systems. But not all will benefit equally.

Consulting is a diverse industry. Best known are the elite strategy consultancies such as McKinsey & Co, the Boston Consulting Group (BCG) and Bain. Firms such as AT Kearney, Booz & Company and Oliver Wyman do the same sort of work but are smaller. A second category comprises the consulting units of the Big Four accounting firms—PwC, Deloitte, KPMG and Ernst & Young. All but Deloitte shed their consulting units in the early 2000s, amid post-Enron fears of conflict- of-interest, but have since grown new ones. A third group consists of technology firms with big consulting businesses, such as IBM and Hewlett-Packard, which focus on installing and integrating computer systems. Finally, some consultants are hard to distinguish from pure outsourcing firms.

Strategy consulting, the most famous variety, is also the most controversial. "I like to con people. And I like to insult people. If you combine "con" and "insult", you get consult," observes Dogbert, a comic-strip character. Many firms share this harsh view of the highly paid advisers who walk in and tell them to re-invent their businesses. Spending on strategy consulting is expected to grow by an annual average of just 1.1% to 2014 (it currently accounts for 12% of all spending on consulting).

But more mundane work is booming. Kennedy forecasts that consulting on operations-management (advice on how to do the same things better) will grow by 5.1% a year, that on IT by 3.9% and that on personnel by 4.0%, between 2010 and 2014.

North America invented the strategic consultant, but appears not to need many more. Western Europe seems sated, too. Companies are now packed with MBA-holding bosses, many of them former consultants. Well-run companies still know when they need outside expertise, which is why strategy consulting is far from dead. But it is increasingly overshadowed by the less glamorous variety.

Small wonder, then, that the strategy houses are vying for that work. BCG was one of just three big firms to grow (by about 3%) in 2009, and had a good 2010, expanding by some 12%. It is expecting an even better 2012, with 15% growth. (The strategy firms are private partnerships that release few precise figures.) One reason is rapid growth in emerging markets. But BCG, like the other strategy firms, has also made money by grabbing a larger share of "downstream" work.

This is bringing the strategy shops into competition with the biggest players: the Big Four audit firms. These behemoths are buying specialist firms in areas such as technology and health care, thus expanding their size and reach by both specialism and geography. In America they are forbidden from selling consulting to their audit clients. But elsewhere the rules are looser, giving the Big Four a potential "one-stop-shop" offer. Everywhere, they have scale that impresses clients. But those clients are driving harder bargains.

In the past two decades most consulting firms have attached many junior consultants to projects with just a few senior people and partners, moving this army into the clients' offices and billing for as many hours as possible. But increasingly, says Jenny Sutton of the Hong Kong-based RFP Company, clients are refusing to pay for junior staff's on-the-job training. Instead, they are asking for fewer and better consultants and setting them to work alongside their own staff.

In short, consulting is looking less like a licence to print money and more like temporary labour. Clients can bypass the big names and hire consultancies such as Eden McCallum, a British firm that packages teams of experienced independent consultants, or Point B, an American firm that provides only a project manager, letting the client select the team. Big consulting firms (with their big brands) can probably coexist with smaller operators. But midsized firms, which cannot command the same fees and loyalty as the big boys, are feeling the squeeze.

In this, consultants are following a trend that has already hit the law firms whose business model they once copied. Clients want value for money. Consultants whose counsel is useful will still do well. But here's a piece of advice for the rest: in a more competitive market, those who think they can dazzle a client with PowerPoints and bill him by the hour forever will starve. That'll be $1,000, please.