

Business consultancy

PWC expanding to become a global mega-consultancy

by Julia Leendertse

The business consultancy landscape is changing rapidly. The future belongs to a few giants, top-class specialists and new networks that form on demand.

A little less than 15 years ago, Dena McCallum had an epiphany. The former McKinsey consultant was, at that time, Director of Strategy for US publishing company Condé Nast ("Vogue", "Vanity Fair", etc) and was poring over her strategies and organisational plans for the international group. It was then that she had the idea of bringing in one or two of her ex-colleagues from McKinsey, The Boston Consulting Group or Bain, for a few weeks' support.

But how, without hiring a complete, expensive project team of partner, project leader and umpteen analysts from one of the three major consultancy companies? In the end, McCallum assembled a group of experienced, highly-trained, and independent ex-colleagues, and contracted them on a freelance basis. Shortly afterwards, in 2000, the Canadian and her long-time McKinsey colleague Liann Eden founded their consulting firm Eden McCallum.

The company operates the same business model to this day, and employs 40 people in London and Amsterdam. Their client portfolio spans 90 countries and includes major names such as Shell, Danone and TNT, as well as private equity houses like 3i. To date, Eden McCallum has deployed over 1,000 project teams of two to six freelancers.

And clients are excited about these smaller teams. Unlike the major consultancy companies, who have to ensure high utilisation rates for their employees, Eden McCallum has hand-picked 400 experts from a worldwide pool of more than 50,000 ex- McKinsey, BCG or Bain consultants. "They bring together teams that are tailor-made to address the client's issue", says Andrew Higginson, the former Finance Director of the British supermarket chain, Tesco.

The small, but select freelancer network is one of the industry challengers redefining the current business consulting landscape. "Clients are currently demanding global coverage, senior consultants as opposed to large teams, highly-specialised knowledge, and this coupled with thought leadership", says Eva Manger-Wiemann, partner at Zürcher Metaconsulters Cardea, a meta-consulting company that supports corporates in selecting business consultancies. Those universal providers and niche players who do not have global coverage are increasingly losing out.

In the future, four groups are expected to dominate.

Classic strategy consultants

Only McKinsey, BCG and Bain are likely to survive in the long term. For decades now, the Big Three have been in control of the strategy consultancy sector. Until recently, their business model has consisted of sending smart consultants into organisations for a limited period of time and developing solutions for highly difficult business problems, devising new business models and opening up new markets.

This has changed, however. 20 years ago, the consultancy sector was 100 per cent involved in pure strategy work, nowadays it is only 20 per cent. The remainder is implementation-oriented organisation and process consulting. This in turn causes problems, because companies can no longer afford to pay exorbitant fees for this type of work, causing headaches within many consulting firms. In particular, mid-sized traditional firms such as Booz, A.T Kearney and Roland Berger have been impacted; the Munich firm is involved in heated discussions about whether they should carry on alone or merge. Second-tier players are catching up as global universal providers, but are generating far less than two billion dollars in turnover per annum – this being the number seen by experts as the boundary, determining whether or not a firm will be able to pay its partners decent salaries, drive expansion, and invest in long-term innovation.

"One area needing constant attention is internationalisation, the other is that of the increasing digitisation of all areas of work and life", says Dietmar Fink, a Professor of management consultancy in Bonn. "If you have no grasp of IT, digitisation, social media and big data, no one will believe you are capable of creating a corporate strategy. McKinsey has adapted to these new market conditions better than anyone else", believes Fink. In 2007, McKinsey founded a business technology office, which concentrates on IT strategies. Today this division counts 700 McKinsey consultants worldwide.

Global multi-specialists

The four major accounting groups - PwC, KPMG, EY (previously Ernst&Young) and Deloitte are playing an ever more significant role and evolving into global mega-consultancies. The combined consulting revenue of the Big Four is over 30 billion US dollars. They help companies to organise cost and tax-efficient supply chains, install risk management systems and find new financing models. The business is growing.

More and more businesses are shifting entire finance, IT, client service and personnel departments to internal or external service providers. These services require knowledge of taxation and employment law, as well as expertise relating to processes, organisation, IT and strategy. In order to be able to provide this, the Big Four are increasingly seeking to absorb appropriate consultancies and, thereby make inroads into the high-price territory of the traditional strategy firms.

PwC, therefore, announced that it was taking over Booz & Company, reportedly for USD 250 million, a price that is too high according to experts. Fiona Czerniewska, head of the British market research institute, Source for Consulting, sees this as an indicator of the "rise of a new class of mega-firms". This development would "create a new segment in which all the current distinctions between firms would become meaningless".

Niche players and newcomers

The niche market will continue to provide opportunities for the leading providers. In Germany, in addition to the top strategy consultancy companies, there are hundreds of middle-ranking specialist companies in individual sectors like energy and finance or in specific topics such as lean or supply chain management. "Many of these specialist companies provide excellent quality and, in recent years have developed a clear profile that differentiates them from the competition", says Cardea partner Manger-Wiemann.

But these specialist providers also feel the competition is getting fiercer. Only a few, like the pricing specialist Simon-Kucher, have become a worldwide brand name.

The Bonn-based consultancy company employs 690 people in 22 countries and is known as the leading advisor on pricing not only in Europe, but also in the USA. "Expanding into international markets was not easy", says Simon Kucher CEO Georg Tacke. "We were fortunate that pricing is an important issue for all companies around the world and that we were one of the first to recognise the field as a consulting topic 28 years ago."

The consultancy Acondas also found such a niche; it was founded by the former McKinsey consultants Jörg Fengler and Andreas Florissen, two years ago. They had noticed that project managers within companies were increasingly looking for external help to plan and progress individual projects. "And this is exactly what we do at Acondas", says Fengler. After only two years, the newcomer employs 25 people.

Freelance platforms

The Harvard Professor Clayton Christensen believes that the consultancy sector has reached its zenith. The same forces that have revolutionised so many industries, from steel to publishing, "are now driving a redrawing of the consulting sector." The basis for this was the internet. It allowed individual strategy consultants to free themselves from a big firm and provide services on their own or together with other specialists. The research products that were previously the domain of the major consultancy companies can now be purchased elsewhere by a solo player, and offered to the client as part of the package.

"When it comes to the analysis of client data, there are now numerous companies, such as Salesforce.com, that offer tools and services to structure, analyse and present the data at an attractive price", says consultancy expert, Eva Manger-Wiemann. There are more and more so-called database providers, such as IMS Health, who provide rigorous and highly-specialised market and sector analyses, to mobile devices if desired. Independent consulting firms like Eden McCallum in London, the Business Talent Group (BTG) in Los Angeles and a-connect in Munich have the advantage of operating without their own research departments and expensive city-centre offices.

This represents the dawn of a whole new consulting scene, which is modular, based on networks that come together and then dissolve after the project like teams in the film industry or advertising.

"Different consultancies and independents will join forces for projects and then go their separate ways", predicts the British consultancy expert Fiona Czerniawska.