

Cost pressures force executives to challenge “added-value” of consultants ... *again!* What’s new?

Why a new model is emerging where companies are determining more specifically which consulting services are adding-value, focusing third party spend on these areas and saving significant costs

Thousands of articles have been written on the effect of the credit crunch, and the wider recession, on companies of all sizes. Strategy textbooks are being rewritten now as live experiments in the crucible of international markets succeed or fail. However, the knock-on effect of this on professional services advisors appears to be flying somewhat under the radar.

So far, so good, for some

So far, the UK consultancies have escaped relatively unscathed. At a time when the majority of the FTSE 250 has been making significant redundancies, the Big Four have actually continued to recruit, and lay-offs have been minimal.

There are a few reasons for this. Firstly, the prudent consulting firms provide a portfolio of services that effectively spread their risk. Consultancies are adept at re-skilling their highly flexible practitioners to suit current market needs. For example, as transaction-based services dropped in FY2008, thousands of consultants across London’s Corporate Finance teams switched to bear market consultancy work like cost reduction, performance improvement or turn-around and restructuring.

Secondly, a battle of billing rates is being fought: this, at least, is good news for clients. Even the most prestigious strategy houses are offering low daily rates to new and existing clients, especially for less experienced consultants, for fear of customers choosing to do the work in-house, or offer it to a cheaper competitor.

The other option for the consultancies in this market is, of course, redundancies. However, since fee-earners are their only source of revenues, consulting Partners are reluctant to reduce their relative market share by laying-off good practitioners.

Time for a paradigm change?

The consulting industry has seen clients maturing with it, and today’s consulting buyers are usually highly capable, organised behind framework agreements and centralised procurement functions. The pressure between what they demand and the rates they will pay has kept consultancies in check, but long periods of economic growth and the relative abundance of work has curtailed their effectiveness. Despite the rate war, most consultancies are

still doing well, and are probably in better health than most of their clients

Recessions usher in the opposite effect - executives under enormous pressure to cut operating costs and discretionary spend look first at the value-add provided by all of their professional service providers. Responses are to cut billing rates first, and then to look at increasing the real value delivered to clients.

Since the consulting industry grew up in the 1980s, it seems that this recession is going to be the worst it has ever faced, so what is going to be different this time? Is it just going to be more of the same?

Rates have, as we’ve seen, been cut, and they may fall further. This could be temporary or this recession might see the commoditisation of the entire consulting industry, similar to how deep technical IT skills have turned into a commodity. However, this is unlikely for business areas where skills and experience remain specialised and demand remains stronger than supply.

Perhaps the real change this time will be the value that companies are able to get out of their consultants, above and beyond the cost. We believe that a paradigm shift is coming that will see consulting engagements structured in a much more flexible and client-centric way.

One example is in mergers and acquisitions consulting. The traditional approach has effectively been “hire us, sit back and you can relax – we’re the experts and we’ll take care of your acquisition”. This has been popular with clients who view the integration as just too important to put at risk. And it has been phenomenally successful for major consultancies who have all built substantial Operational Advisory Services / Post Merger Integration teams.

The downside of this type of engagement is that it is structured to suit the consultancy rather than the client. It is very consultant-intensive, meaning that companies end up paying a high premium for the mitigated risk of uninterrupted consulting attention for their transaction.

For small and medium size companies, or those executing small or medium sized deals, an all-or-nothing choice about whether to do it themselves or get in the experts will often lead to them trying to navigate the transaction alone and inexperienced.

Even for those that can afford it, the programme sponsor might wonder how it could be improved. His transition team may have learnt very little because the consultancy effectively took over each workstream. This is particularly peculiar when considering that many of the consultants’ daily activities included basic project management. These skills could have been sourced internally, or, if temporary external support is absolutely necessary, they could certainly have been found at much more competitive rates.

Flexible consulting services

So, what is changing? We’re seeing more clients coming to us and talking about how we can deliver a more flexible service to them, where they can decide which services are value-adding and focus their spend on that.

For example, many are interested in a temporary retainer, for the life of a given deal, where a monthly fee guarantees a certain number of days from our M&A experts (who are all from Big Four backgrounds). This is sufficient to brief executives on what to expect with M&A integrations, kick-off the programme, train key transition staff in our methodology and tools and provide light-touch programme leadership and advice on a part-time or ad hoc basis, as required. Not only are the overall consulting costs much lower because you own the programme yourself, but your executives and staff are learning as they do it.

For the same reasons, we’ve seen a rise in requests for one or two day training courses and integration mobilisation events. We’re also doing a lot more programme reviews where we can come in and objectively assess programme structure and spend.

Your consulting partner should be looking to add value by putting you at the centre and demonstrating the flexibility you want from them.

This article was written by Andrew Scola, a Partner at DD Consulting, a boutique company specialising in M&A integration, separation and change programmes.

