

A new front in the war for talent

November 2011



In partnership with



Penna

Foreword

It is now bordering on cliché to say that we live in changing and challenging times, and most sectors continue to be fragmented and unpredictable places to do business. In reviewing Penna's approach to working with our clients in the management consulting sector, the idea of partnering with Source to conduct a piece of research looking at how, in the current volatile climate, consulting firms attract, retain and deploy their best people, seemed both timely and highly relevant.



This research has produced rich and fascinating insight into how consulting firms of all varieties are adjusting their hiring and retention strategies in response to the difficult economic situation, but perhaps more interesting were the findings relating to the interface between consulting firms and their clients. This was not just in terms of how staff flow from one to the other and back again, but how the previously clearly defined boundary between the two is becoming more blurred, and the impact this is having on how consulting firms and increasingly 'intelligent' clients work together.

Penna too has seen the rise of the intelligent client who understands better what they can do themselves and where and how they need our specialist support and, like most of the consulting firms we interviewed, we also embrace this as a wholly positive development. While there is no doubt that consulting firms are now much better equipped internally than they once were to deal with a number of their hiring, retention and people development challenges, there are plenty of areas where our support is vital if they are to maximise the potential of their organisations and the people within them.

Penna has a proud history of working with clients in the management consulting sector. Many know us for our Executive Search capability, but in recent years we have increasingly operated across the full range of our services, from the attraction and recruitment of the most talented people in the marketplace, to their retention and development and – when the time comes for them to move on – the provision of support as they transition to their next role. We hope to work with a number of you over the coming months and years.

Working with the Source team over the last few months to conceive and create this research report has been a highly educational and enjoyable experience and we thank them for their collaboration on what we hope will be the first of a number of such joint ventures.



David Hunter
Director – Executive Search, Penna

Background

These are not easy times for the consulting industry. With a dormant public sector, a jittery financial services sector, worsening economic conditions and increasingly active procurement departments stepping between consulting firms and their clients, the path to growth is a hard one to find. And yet for such an embattled sector there seems to be an awful lot of hunger to recruit consultants. 58% of the consulting firms we surveyed for this report said that they had increased their headcount in the last 12 months, and fully three-quarters said they expected to increase headcount in the next 12 months. By no small measure either: of those who said they expected to increase headcount over the coming year, more than a third said they'd do so by 20% or more.

Perhaps more tellingly, consulting firms aren't the only ones at it. Nearly half of the consulting firms we surveyed said competition for talent between themselves and clients had increased in the last three years. Just 6% said it had decreased. And throughout the course of the interviews we conducted one message came through louder and clearer than any other: the number of ex-consultants working for clients has increased dramatically over the last few years. We should, of course, note that the idea of ex-consultants working for clients isn't a new one: "To some extent there has always been a competitive situation for talent between the major consultancies and major corporations" observes Tracey Austin at KPMG, but its scale now makes this competitive front something worthy of analysis.

The nature of that front – and how it contrasts with the old front between consulting firms themselves – is the focus of this report. But the fact that it exists at all, set alongside consulting firms' apparently insatiable desire for new talent at the moment, raises an important question: could it be that while the consulting industry is in difficulty, the consulting profession has never been in ruder health? After all, it would appear that consultants are in as much demand as ever. It's consulting firms which appear to have a problem.

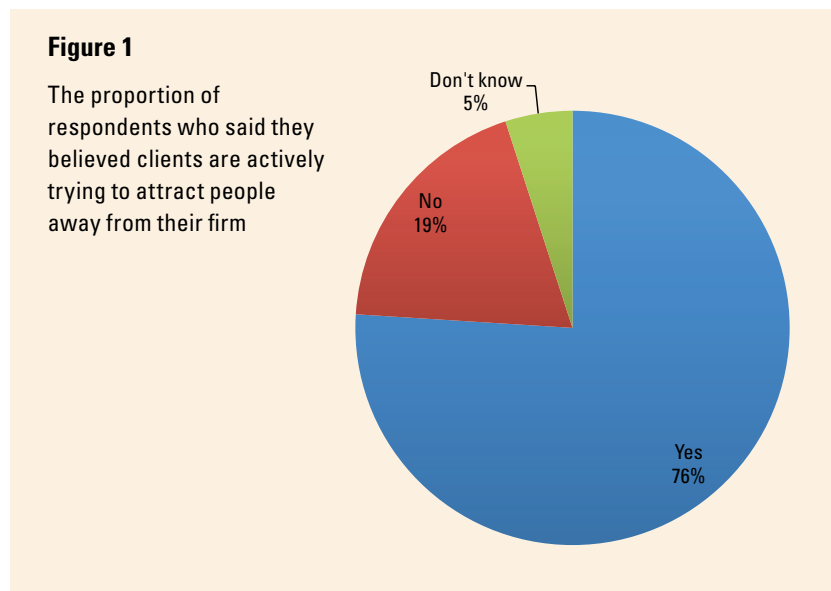
Understanding that problem requires us to explore not only how the dynamics of the new front are different from the old, but also what it is that's really being fought over. We'll come on to that later: first we need to explore why so many ex-consultants are now working for clients.

Why are more consultants working for clients?

Because clients want them to

The first thing we need to recognise is that more consultants are working for clients because clients want them to. This is not simply the result of a conspiracy on the part of consultants to go the next step beyond what's affectionately, if a little unsettlingly, known as 'going native' and putting themselves on the payroll, plausible though that may sound. It's actually because clients want consultants working for them.

In part that's probably because the opportunity to recruit ex-consultants has grown. As Stephen Vinall from Moorhouse Consulting points out: "a natural consequence of a maturing consulting industry is that there are more consultants washing through into industry." But it would be dangerous to conclude that clients are playing a passive role here. More than three quarters of the people we surveyed said they thought that clients were actively trying to attract people away from their firm.



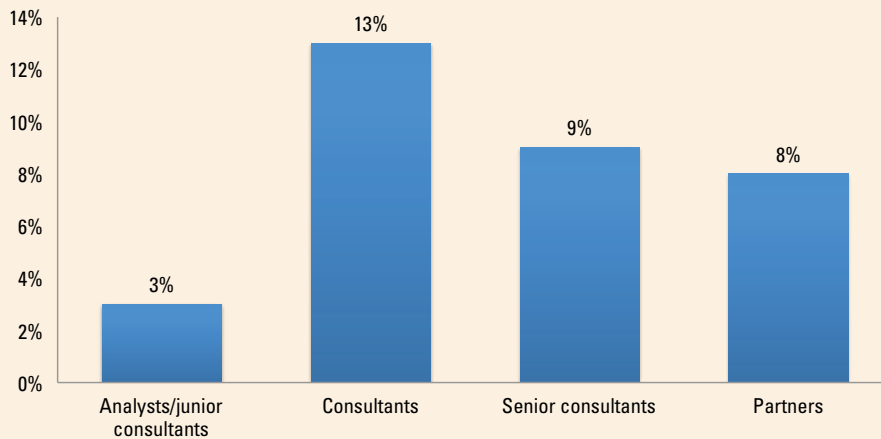
Of course it's virtually impossible to quantify how many ex-consultants now work in industry, but we asked consulting firms what proportion of their full-time consultants have left them in the last year to work for clients. Across all grades the answer averages slightly more than 8%. Bear in mind this is not 8% of the people who have left, this is 8% of all full-time consultants. There's quite a lot of variation across grades (as Figure 2 shows, the biggest focus is on middle-ranking consultants) but the number is substantial.

There's been an increase in the last couple of years of clients cherry-picking our best people

Partner, specialist consulting firm

Figure 2

The proportion of full-time consultants at each grade who have left in the last year to join client organisations



With attrition rates currently running at an average of about 11% that makes clients a very significant destination for departing consultants, something that presumably wouldn't surprise Mark Campbell from Hitachi Consulting: "It's overwhelmingly the case that in negotiations with clients someone sitting on the client side of the table will be ex-consulting."

So what is it that clients are after when they recruit consultants? Broadly speaking they appear to want to have on-going access to all the things they like (which tend to be to do with consultants themselves), without all the things they don't like (which tend to be to do with consulting firms) at a lower cost. Those include:

- **Objectivity.** Consultants are skilled at looking at situations dispassionately and arriving at conclusions based on evidence rather than coming to subjective conclusions.
- **Broad experience.** Consultants have usually seen the challenges a client is facing elsewhere, not only in their industry but often in others.
- **Independence.** Having access to someone who is able to remain relatively unmoved by internal politics and agendas is a huge benefit to clients.
- **Knowledge and capability:** Consultants are usually people who either know a huge amount about something particular, or have the sort of all round capability which got them through the tough selection process for a consulting firm in the first place.

Internal consulting units are now the biggest competitive threat we face, particularly in continental Europe

A major US strategy firm

Internal consulting units

The trouble, of course, is that most of those are things that are compromised from the moment the consultant signs on the dotted line with their new employer. They might not disappear immediately, but they will over time. That may go some way to explain why internal consulting units are on the rise, something that prompts more than one consultant we interviewed to describe them as their main competitor. They're a very effective way to counter the erosion of all the qualities that clients want to bring in from consultants. They might not stop that erosion completely, of course, but even that's something that clients are finding a way around. "We don't expect ex-consultants to stay in our internal consulting division indefinitely" a senior executive from a large multinational manufacturer told us. "At the point when their objectivity is no longer distinguishable from any other member of staff we'll move them into the mainstream business and top up the consulting division with fresh consulting talent. It's a cycle we plan for."

That degree of planning is the exception to the rule though, and for the most part consulting firms, whilst aware of the opportunity they represent for clients, point to the differences between themselves and internal consulting units in terms of value proposition: "Projects always need a balance of resources that understand how the client's internal delivery engine works, as well as those with industry experience and expertise" says Mohamed Mansour at Baringa Partners. They're also not something that suit every type of client organisation, as James Black at J&M Consulting points out: "They can work well in large organisations where work done for one division can be replicated across the organisation, but smaller clients often end up having to sell their consulting services externally to maintain decent utilisation levels." So, just to be clear, that's ex-consultants working for clients in consulting divisions and being sold to other clients. A mature industry indeed, not to mention one that's been here before. While the number of ex-consultants working in some capacity for clients is clearly on a sustained upward trend, interest in internal consulting units tends to be cyclical. Many have come and gone in the past and even those which became a success – like Origin, formerly a part of Philips and now part of Atos Origin – rarely end up continuing to fulfil their original purpose.

CASE STUDY

ECCO is a family-run shoe-making business, founded in 1963 and headquartered in Denmark. It now employs more than 17,000 people in fifty countries. Despite its success as a global business it has failed to fully potentialise its retail operations; something that eventually led its boards and owners including President, Dieter Kasprzak to consider bringing in external advisers to help it resolve. So far, so normal. But having had a bad experience with big consulting firms in the past, Kasprzak took a very different and innovative approach from most business leaders: he decided to create a consulting firm which would specialise in retail and would have one client only: ECCO. For the first 2-3 years of its life, the new consulting arm (KRM) was brought in on the basis of a consulting agreement and charged a results-based fee to its parent. It was asked to respect the ECCO brand within certain parameters but was otherwise given carte blanche to do whatever was needed to fix things. Above all else it was used to shake things up in a company in which the existing retail function was failing to innovate.

Results soon followed. Early successes in the UK and Germany have led to KRM being given a much wider remit and from 1st January 2012 it will take over formal responsibility within the business for all ECCO's European stores.

David Butler

European Retail and Marketing Director, KRM Consulting

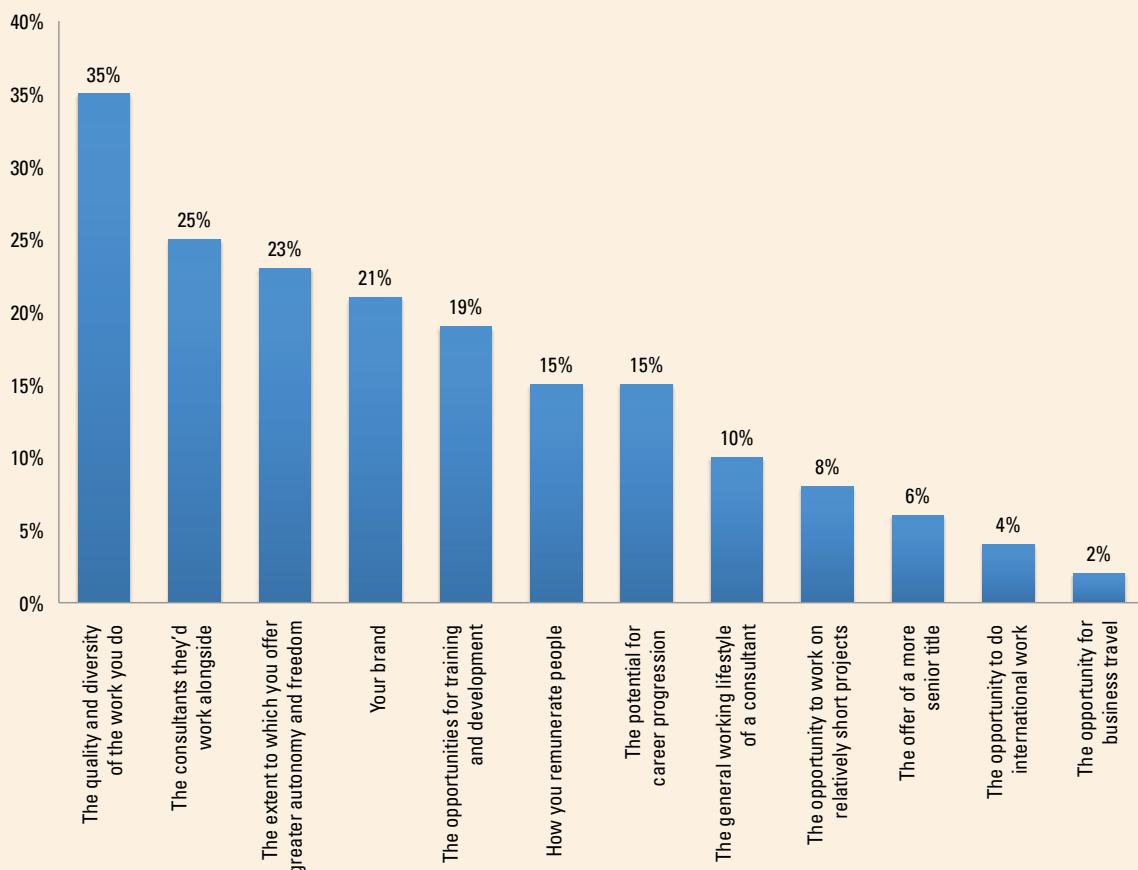
Because consultants want to work for clients

Internal consulting divisions are just one piece of evidence in a growing case which argues that the difference between clients and consulting firms is narrowing. Exhibit A is usually the intellectual evidence: with the proliferation of MBAs amongst clients, not to mention a growing number of ex-consultants in their ranks (whether or not as part of an organised internal consulting division) clients are increasingly the intellectual equal of their advisers. That means consulting firms have their work cut out to maintain their edge over clients, and the product they can sell to them. But crucially, for the purposes of this study, it means that some of the cachet which prospective recruits would normally attribute to consulting firms is lost.

However, the closing of an intellectual gap is only a part of the story. Compensation and benefits are another big part. "The perceived differential between consulting and industry has been greatly diminished" says Mike Hedges of Yare Group. "Benefits packages are much more interesting in industry now – it's possible to make just as much money in industry (across a range of opportunities and locations) – if you look at the total package." Indeed looking at it the other way, just 15% of respondents to our survey said that remuneration was one of the three most effective ways to attract talent away from industry. Far more effective, as Figure 3 illustrates, are the diversity of the work within a consulting firm and the opportunity to work alongside high-quality consultants.

Figure 3

The most effective ways to attract talent away from industry and into consulting (proportion of respondents choosing each option as one of their top three ways)



Into which context internal consulting divisions might appear to be the icing on the cake. For all their failings, and there really are a great many, they might appear to offer an aspiring ex-consultant the best of both worlds. There certainly appears to be a lot more to gain than to lose. But consulting firms are keen to sound a note of caution, as well they might. About 60% think that the skills required of a consultant working in-house are different from those required of a consultant in a consulting firm. Most cite the loss of credibility as the main thing in-house consultants have to deal with but if that's more about the job getting harder (rather than different) then the bigger issue is about being thrust into the ebb and flow of internal politics. That's something most consultants can avoid until they get to a certain level of seniority, but as one respondent told us "you've got to deal with this whatever level you're at when you are working internally."

However, if increasingly sophisticated clients, remuneration and internal consulting divisions are all things that bother consulting firms then the main reasons consultants leave them to join clients are something about which they tend to be far more sanguine. "It's about their work life balance" says a Big Four firm. "They want to reduce the suitcase lifestyle that comes with being a consultant." Stephen Warrington at PwC agrees: "They're attracted to what they think will be a greater degree of certainty in their working lives, even if in reality this isn't always what they end up getting." The overwhelming impression you get from talking to the heads of consulting firms is that there really isn't much that a consulting firm can do if a consultant has decided to leave for lifestyle reasons: far better simply to wish them well and hope to see them soon. Particularly if there's any chance of them turning into a client...

CASE STUDY

Do you actively try to attract consultants away from consulting firms and if so how would you do this?

The only time we do it is when we recruit for the strategy function, when yes, we consciously look for somebody with that background. We have previously taken junior consultants from one of the main firms that we deal with for 6 and 12 month secondments. That works very well because it gives the consultants real life experience and gives us some expertise. When we are hiring permanently, we will target a consultancy background. I have never gone out and poached a specific consultant from a firm that's worked with us on a project but I have approached the lead consultants to say that I'm hiring and to see if they know of someone looking for a permanent home. We go about this very much above board; we don't pick up the phone and cold call. At any rate, it's not easy because the pay ranges are high against what we pay in retail. It works because we offer a better work life balance, so the consultant who joins us will trade an element of salary for an element of lifestyle choice. I suspect that's what most consultants who leave a firm choose to do it for.

Why would you want a consultant to work for you rather than a consulting firm?

The obvious answer is the day rate, but it's also about continuity of service. The consulting firms we work with are very good at giving us repeat team members, so whenever we re-engage them we have the same leads and at least one of the previous team. The challenge of consultancy is that you pay for the consultant to learn your business before they can add value, which is why we tend to stick to the same firms. The question around why you would have them in-house is a really interesting one though, because one of the things I've come to learn in the last year has been about how you equip somebody with a consultancy background to work in what is a very practical environment. Historically we haven't been smart enough around the 'on-boarding', at making sure they go out and get grass roots experience of the business. They tend to be naturally very bright people; very capable strategic thinkers but sometimes a bit impractical. The theory is good but what's most important is the instinctive understanding of how retail works. That's something you learn through bitter experience, by trading through different environments and getting your hands dirty.

To what extent do ex-consultants prove to be a success when joining your organisation? If they're not a success, why do you think that is?

We've talked about the 'on-boarding' which I think is a trick we've missed, but inevitably there's a commercial challenge, too: if you're paying somebody a pretty high salary you want value fast. On balance I still think we would provide better long-term value if we invested more in the on-boarding. The ex-consultants that we have working in strategy do a very good job for us, they bring a methodology, a way of working, a set of business disciplines that is very welcome. What makes a consultant great, is their ability to beat the living daylights out of ambiguity on a brief, so successful consultants succeed because they get their client's specifications really, really clear. That discipline is very good in a business environment and it's not something we challenge ourselves about enough at a senior level, so it's very welcome. I think the people we have working on a bespoke project tend to do really well. If I think about the people I've got working in our business they assimilate very quickly and what they do bring for us, which reflects both our strength and our Achilles heel, is an external and different way of thinking. Our big risk is of insular thinking, so to import an element of 'big-brain, wide-thinking' capability is really important.

HR director at a major retailer

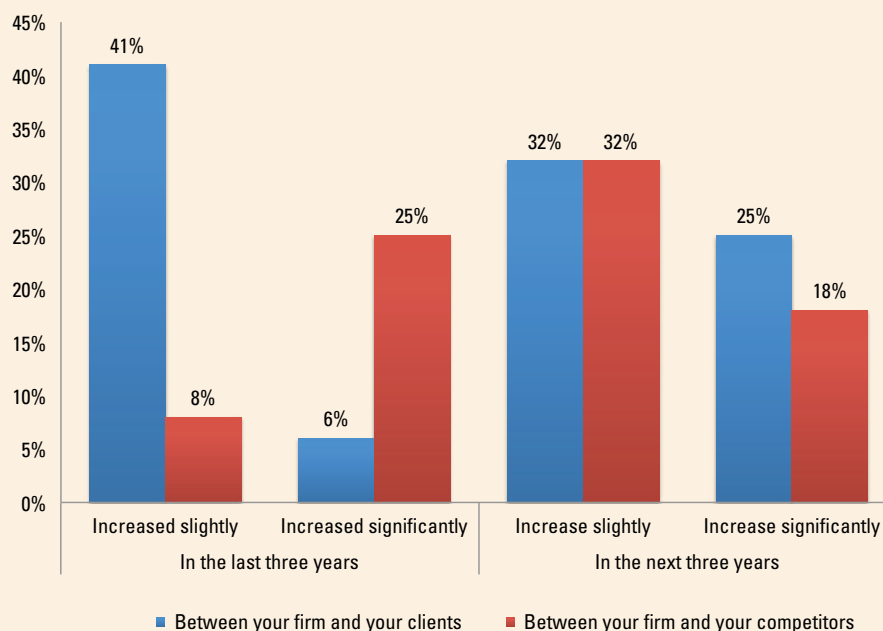
The differences between the new front and the old

While the evidence presented so far goes some way to making the argument for the existence of a new front in the war for talent, there are two important points we need to make before going any further.

The first is that the old front, as Figure 4 shows, hasn't gone away. Other consulting firms remain as big a threat to clients as they ever have and the general level of competition for talent between consulting firms is increasing.

Figure 4

How respondents say that the level of competition for talent between their firm and clients, and their firm and competitors, has changed over the course of the last three years, and is expected to change over the next three years

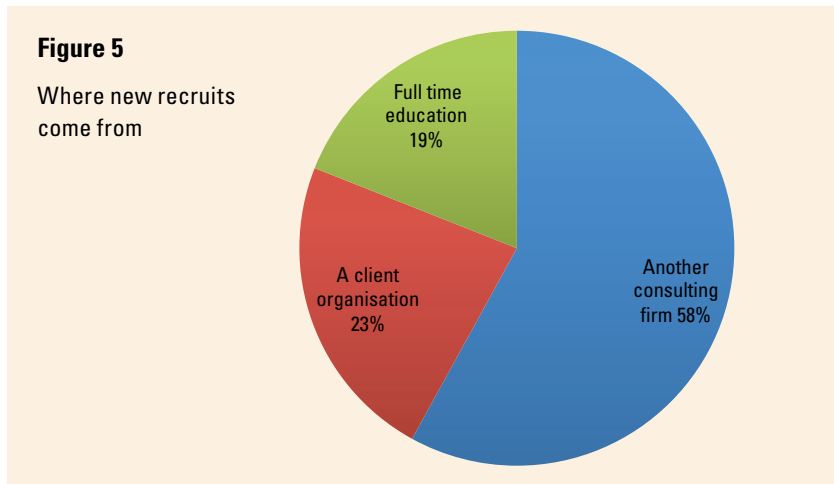


But the front between consulting firms and their competitors is a well-known one, in which the aim is simply to beat your competitor to the best people. The second, more important, point is that the new front – between consulting firms and clients – is a very different one in two crucial respects:

1. Consulting firms don't want to beat clients, they want to work with them.
2. The battle being fought on this front isn't actually about talent at all; talent is simply the proxy for a more important tussle over the future of consulting itself.

The first of those stands to reason and needs little explanation but it is the single most important piece of contextual information which will inform the discussion from here onwards. The second is the most significant and is something we'll deal with in due course. Before we do, there's a third way in which the new front is different from the old and that's that it's far more about retention than recruitment.

Stephen Warrington from PwC sums up the situation neatly: "I would say that the majority of people leaving us move into industry, but I wouldn't consider people entrenched in industry to be a prime source of talent for us". In other words, this is not a two-way street. Where recruitment is concerned, the overwhelming sense is that competition is still between one consulting firm and another. Indeed the average proportion of new recruits coming from another consulting firm, according to our survey, is just short of 60%, while three-quarters say that they 'never' or 'rarely' try to attract talent away from clients.



We need to be a little bit wary here: consultants are pre-disposed to supporting the idea that they can snatch talent from competitors at will, but never lose anyone to them. And we also need to recognise that there can be significant differences from one sector to the next. “We compete much more heavily with clients in the financial services sector than we do in energy and utilities” says Mohamed Mansour at Baringa Partners. “Traditionally, consulting has been seen as a more volatile career choice than an industry job, but with the changes happening across the market (and especially in financial services), that gap has narrowed and more people are looking at consulting as a credible and sustainable career path.” Nevertheless, the general impression across the consulting industry as a whole is that where new recruits are concerned, the competitive front remains primarily between consulting firms.

It also supports the idea that consulting is a skill in its own right and isn’t something that everyone can do, a matter which for Stephen Warrington appears to represent something of an inflection point within the industry. “There’s been so much focus on domain knowledge in recent years” he says, “and industry is an obvious place to find that. But you need people with intrinsic consulting skills, too, and they’re not always easy to find.” Paul Alexander from Beyond Analysis agrees: “We’re not paid to tell people to do what they always do and there’s a danger of getting that when you recruit clients.” The suggestion is that people tend to hire from clients to fix a short-term gap in industry knowledge, not for the broader consulting skills which will make them a valuable asset to a consulting firm for years to come. The extra effort required to build long-term assets from industry hires is something to which Mohamed Mansour alludes: “We put a lot of effort into ‘on-boarding’ the people we bring in from industry” he says. “They need time to adapt to working in a consulting environment.” It’s a situation which can overstretch HR departments, particularly in high-growth situations like those experienced by Hitachi Consulting at the moment. “Hiring from clients is fine but given the need to ensure the individuals are suitably trained and inducted into the consulting business, if we do too much of this it could put us at the margin of what we can cope with from a training and development perspective” says Mark Campbell. Whether by nature or nurture, recruits from other consulting firms presumably come with that particular box ticked.

Retention of talent, on the other hand, is a matter around which the stark contrasts between the two fronts are revealed. Losing people to competitors is something which clearly hurts. “We get really uncomfortable about people moving to another consulting firm” a partner in one consulting firm told us. “We take it quite personally”. On the other hand losing talent to clients is often welcomed. “It’s a huge endorsement of the quality of our people” says Stephen Vinall at Moorhouse Consulting. “There’s nothing more flattering than clients liking our consultants so much that they want to hire them.” And even where it’s not actively welcomed, it’s certainly accepted. “We’d rather lose a consultant than a client” a partner in one firm told us. That’s not to say that the transition going the other way is necessarily any easier – “ex-consultants need to learn how to become clients” suggests Andrew Marshall at Crossbridge – but that the nature of competition is very, very different.

Ex-consultants as a force for good

The readiness to lose consultants to clients has its roots in one of the clearest themes to emerge throughout the course of our research: that consulting firms generally see a greater number of ex-consultants working in industry as a positive thing. That appears to boil down to one thing above all else: more intelligent clients.

“Ex-consultants often have a good understanding of what’s required from a consulting assignment, so it’s possible to have a conversation with them that starts from that same shared understanding” says a director of a mid-sized consulting firm. “They just get it” agrees Andrew Marshall at Crossbridge. But Mohamed Mansour is quick to point out the other big reason: “Ex-consultants often best understand how to make the most of external support, and therefore when it can add value to their projects.” That’s leading many firms to look at McKinsey’s alumni model and wonder if they can do something similar themselves. “We’re actively investing in our alumni network” says Stephen Vinall. “There are a number of ex-Moorhouse consultants who are now active clients of ours.”

Those with an eye for innovation are even building business directly off the back of it: “We’re embracing the fact that clients are building capability by making it a formal part of what we offer” says Paul Alexander at Beyond Analysis. “We help clients to change themselves rather than doing it all for them.”

However, an increasingly intelligent, ex-consultant-heavy client base does present a number of challenges. The first of those is a far tougher sales process. Ex-consultants know a lot more than most about what’s going on in the minds of the people sitting opposite them across the negotiating table and that demystification is at its most threatening when it comes to rates. “They know what they want and they know how to get it” as Mark Campbell from Hitachi so succinctly puts it. “The impact is all at the buying stage” agrees Ruth Mundy from Mouchel.

There’s also the fact that as clients take on board a growing number of ex-consultants, and become more capable as a result, consulting firms need to find a way to respond. It’s a challenge that many welcome. “It means we have to maintain a very high bar and have a strong value proposition for the market” says Mohamed Mansour. “It keeps us on our toes, but if we can’t justify our value then we shouldn’t exist in the first place.”

Far more significant is the question this raises about what consulting is in the first place, something that has profound implications for the way consulting firms, and the models by which they operate, are structured.

The impact on the business of consulting

For a start, demand from clients appears to be bifurcating. As clients have an increasing amount of ex-consulting talent to draw on, their demand for services is forced either up, or down, the value chain – away from those areas in which they believe they already have sufficient capability. It’s a situation that’s either exacerbating, or exacerbated by (depending on which way you see it), a general trend amongst clients to recognise that there are two broadly different types of external services they require:

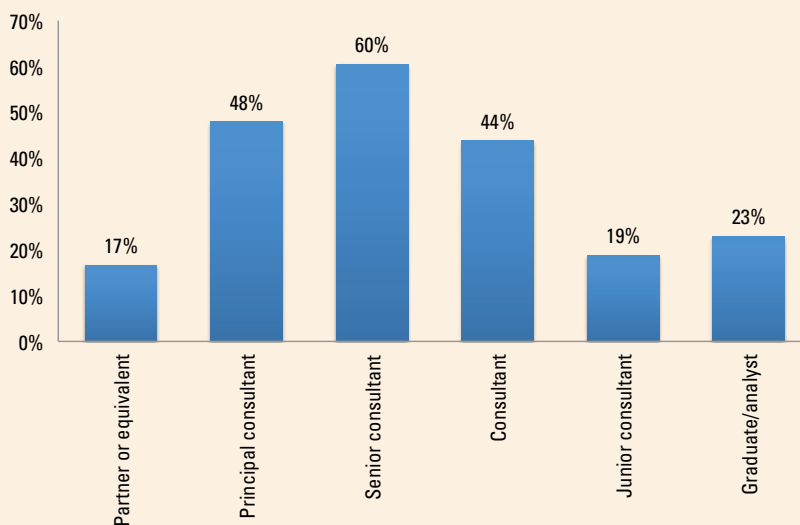
1. **Solutions:** what we would normally think of as management consulting, but moving towards the higher, more experienced end of the discipline. The demand here is for senior people with the sort of deep industry expertise – and broader consulting experience – who can not only tell the client something they don’t already know, but can also advise about how their recommendations can be implemented.
2. **Skills:** contingent, typically more junior, labour brought in to fill a gap in the client’s own internal resources, potentially to help with the implementation of recommendations made by consultants.

The general consensus in the industry at the moment is that it’s the former of those towards which demand has moved in recent years, and certainly that’s the vision of the consulting firm of the future – and even of consulting itself – that most clients have in their minds. “We’re getting a lot clearer about what consulting is and what it’s not” one HR Director told us recently “and we’re no longer prepared to pay consulting rates for the latter.”

Which makes an analysis of current recruitment patterns all the more intriguing. The quantitative evidence, illustrated by Figure 6 suggests that the biggest demand at the moment is at the higher end of consulting talent but the weight of anecdotal evidence garnered through interviews points at a move in the near future towards the lower-end of the pay scale.

Figure 6

The grades of consultant that consulting firms are hiring most at the moment (% of respondents choosing each option)



Amongst bigger firms that's as much about the continuation of a well-established model as it is about a reaction to new market conditions, but it's still notable for the fact that it simply hasn't slowed up. "The graduate hiring model continues to be a key driver for the business, alongside new initiatives and innovations to attract entry-level talent" says Iain McLaughlin at KPMG. That it's happening elsewhere is more striking.

Most are quick to point out that this is about redressing the balance in their business following a period when their focus has been on senior talent. "It's more about filling a gap than about creating a pool of junior people we can bill out to clients" says Mark Campbell. But the underlying reality probably has a number of factors at its heart, some acknowledged, some less so:

1. Graduate talent is relatively easy to pick up at the moment. Recent UK unemployment figures illustrated the disproportionate degree to which young people are being affected by on-going economic uncertainty and this is creating an opportunity for consulting firms who are keen to bolster their resources at a junior level.
2. Economic conditions also mean that many client organisations are still a lot thinner on the ground where human resources are concerned than they would expect to be at this stage of the recovery. Added to which the threat of a double-dip recession is fuelling concerns that now is not the time to start recruiting again in earnest. So there are gaps, which clients are only too happy to fill with bright young consultants, provided they're not expected to pay much for them. The situation is particularly stark in the financial services sector, where staff were laid off to such an extent during the last recession that the ensuing skills shortage has sustained what would otherwise be a threatened pyramid model for many consulting firms working in the sector.
3. Less understood is the idea that this demand for contingent labour might be part of a broader trend to separate skills from solutions. Consulting firms will doubtless simply be happy to see a slew of new junior recruits being kept busy, but how many of them have realised that they're effectively now operating two businesses, and that the middle ground – the world of the blended rate – is one to which clients might not be about to return any time soon?

We should also recognise that just as firms appear to be shifting their emphasis towards junior talent, there's a commensurate growth of interest in the use of associate consultants. The associate model is one which has, to some extent, found its milieu during the economic turbulence of the last few years because it means consulting firms are far less exposed to market fluctuations than they would be if they were carrying a similar number of people on their full-time payroll. "We controlled a lot of our exposure to risk in the immediate post-Lehman period by the use of our associate model" says Andrew Marshall at Crossbridge. "The flexibility really appealed to clients who could draw on specialist resource as they needed it."

The impact of the globalisation of consulting

There's also an international dimension to any conversation about the consulting industry at the moment and it may have direct relevance here. Iain McLaughlin from KPMG explains the significance within his business: "Attracting talent with international experience has moved from a desirable to a semi-essential mode" he says. "It's driven by demand from clients for truly global teams that can be set down in any location and work seamlessly." Two-thirds of respondents to our survey agreed that demand from clients for consultants with international experience was likely to increase over the course of the next five years. None said it would decrease.

The manifestation of that international dimension takes a number of forms. For most, having people with multilingual capability is important, although while for some this is about being able to field global teams, for others, like James Black of J&M Consulting, it's about managing supply and demand across many countries from one central talent pool. "We're really keen to be able to resource client work across geographies" he says. "The challenge is to find enough people with global experience, cultural insight and language skills who can do that."

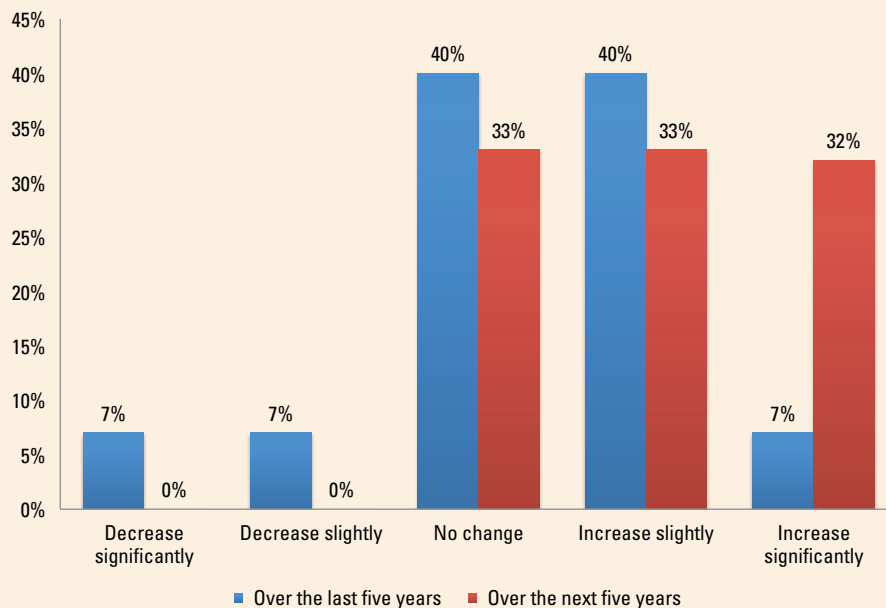
Looking at it from a recruitment perspective, the sense is that a global talent pool is opening up which didn't previously exist. "There's a huge amount of talent coming out of less familiar places like the Philippines now" says Stephen Warrington at PwC "and the important thing to recognise is that these people are being hired on global merit, rather than simply because they provide local capability in emerging economies."

Indeed there are equally divergent views around what sort of presence a firm should build in emerging economies. For some, increasing the number of multilingual and multicultural hires in their firm is the most important thing, while for others the main questions are about whether it's best to build a presence through acquisition, by building a local team or by parachuting in international staff to set up the new business. Carrie Oliver from Yare Group puts forward a view which is representative of many small firms' approach to the situation: "We're keeping a close eye on how things are developing in Brazil, using our existing relationships to keep an ear to the ground with a view to hiring people who have already learned the ropes. That helps to de-risk things from our perspective."

Where there's broader agreement is in the idea that you need to have a combination of local and ex-pat people on your books when you're establishing an office in a new country. The consensus appears to be that the former are best placed to develop local relationships, while experienced ex-pats bring their consulting skills and sector expertise into the mix.

Figure 7

How respondents say demand for talent with international experience has changed and will change in the future



And yet many consulting firms still appear to be stuck like a rabbit in the headlights as the juggernaut of international demand hurtles towards them. For some, mainly smaller firms, it's something they're simply not sure what to do about. Opening offices in new countries can be an expensive and distracting business, and that's even once you've worked out where it's best to base yourself. There are some areas of consensus as far as this last point is concerned – BRIC countries are mentioned and the Middle East seems to attract an especially high level of interest amongst the people we interviewed – but even clarity here might be missing the point.

That point is what's getting in the way for many bigger firms, and it's this: the globalisation of consulting isn't simply about having an office in every country, it's about being able to join them up. It's no good trying to impress your client by telling them that you have offices in India and China; if the project they want you to work on runs across both countries then you also need to be able to demonstrate that those two offices can work together. Even more importantly, you need to be able to demonstrate that your consultants are capable of global thinking. And that's where junior talent comes in. As Stephen Warrington at PwC puts it "The younger generation are simply more steeped in the idea of a global community. We need to start designing the international career path." What better place to start than at the bottom?

Most of the problems clients bring us have an international dimension

Stephen Warrington, PwC

Conclusion: Diamonds aren't forever

At the same time as this intriguing situation is being played out at the bottom end of the consulting pyramid, there appears to be very little doubt that demand is also being forced upwards, towards the top of the pyramid. Two-thirds of respondents to our survey said that the impact of a growing number of ex-consultants working in-house was clients becoming more interested in senior consulting resource because they needed people who were even more experienced than the consultants they already have working for them.

And so to the pyramid itself. Perhaps the most telling statistic from all of our research was the 30% of people who said they had already changed their business model in response to a growing number of ex-consultants working for clients.

At this point we stray into a slightly comical world of fascinating shapes. During the course of our interviews we heard business models described variously as square-shaped, thinner-pyramid-shaped, barrel-shaped, mushroom-shaped, coffin-shaped and tent-shaped (though what sort of tent wasn't clear). The broadest consensus seemed to be around a diamond-shaped model with relatively little resource at the very top and bottom, and most focus on the middle. At first glance this appears perfectly reasonable: partners are always going to be in shorter supply, so there's little point in planning a model which is top heavy, and demand – at least for genuine consulting services – is generally reckoned to be moving away from the bottom of the pyramid.

But isn't there a flaw in the thinking here? If client demand really is moving towards the top and the bottom then surely the last place you want to be is in the middle. At the risk of seriously overstretching the shape-related metaphors, may we propose the hourglass? And having done so, may we suggest that the question may ultimately be whether sand can continue to flow from the top of the hourglass to the bottom, and vice-versa, or whether time is running out for the idea of the two being connected at all?

For Chris Vaughan from Turner & Townsend that's not necessarily a problem, as long as you realise it's happening: "If you know you're providing both models under one roof then that's fine" he suggests. "If you don't, you've got a problem."

For bigger firms, and especially for the Big Four, the way they choose to answer the question has profound implications for the consulting industry. With the Big Four hiring a growing number of graduates into their advisory practices at a time when – the counter-trends described above notwithstanding – the general move has been away from junior talent, they're effectively becoming the nursery from which the industry as a whole draws its talent. If they decide to scale back their investment, where does the next generation of consultants come from?

Methodology

There were two parts to our research for this report. The first was a series of 20 interviews, mainly with partners and other senior managers in consulting firms, but also with a smaller number of heads of function within client organisations. The second was a survey of approximately 50 consulting firms which we have used to draw out some of the more quantitative aspects of the research. Both parts of the research were conducted during October and November 2011.

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