

From recession to recovery

How management consultancies are
adapting and demonstrating the value of
consulting to clients



Preface

From recession to recovery

2009 was the UK economy's *annus horribilis*. The impact of the financial crisis and subsequent recession on UK-based management consultancy was inevitable and serious.

For the first time since the MCA started collecting data, the industry's revenues fell, roughly in line with the contraction in GDP. Clients reacted to the downturn as we anticipated; consultancy was certainly not immune.

This report gives a summary of how the consulting industry responded to these challenges. First, and most importantly, there was the continuing focus on helping clients to deal with the impact of the recession, resulting in further growth in work to make businesses more efficient and sustainable. Recessions accelerate change and stimulate higher levels of performance. If Britain has got through this period with lower unemployment than many feared, to a significant extent this was due to the efforts of thousands of management consultants who enabled their clients to cut costs, save jobs and weather the storm.

Second, we show that the industry moved fast to make itself more efficient. MCA member companies became significantly more productive during the year and more of their work is now done on a performance-related basis. Interestingly, the data also shows that they concentrated their investment in high levels of expertise maximising the value that they add for clients.

A recent report from the MCA, *The Value of Consulting*, confirms that consultants generate a significant return on investment for their clients. On average across the range of work carried out by our members, benefits to clients are worth around £6 for every £1 spent. Consulting is a resilient, agile and effective industry. Despite the pressures of the downturn, UK consulting has continued to develop and diversify its skills and capabilities and continues to be a vibrant profession. In the latter part of the year there were signs of an upturn, particularly in financial services. The consulting industry that emerges from this recession is tougher and more focussed. It is also increasingly seized of the need to deliver and demonstrate its value.

This report is a summary of the headline data from the 2010 UK Consulting Industry Statistics Report – the most comprehensive and authoritative analysis of the UK consulting industry available, published annually by the MCA since 2002. The report is the first in a series of four being published in 2010 as part of the MCA's new Industry Research Programme that has been designed to meet the growing need for regular data and insights into the UK Consulting Industry. To find out more visit www.mca.org.uk/industry-research

A handwritten signature in black ink, appearing to read 'Pat Newberry', with a horizontal line underneath.

Pat Newberry
President, MCA

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From recession to recovery

2009 - A summary

2009 was one of the most difficult years - possibly the most difficult - the UK consulting industry has ever faced. However 2009 also demonstrated the ability of the consulting industry to improve its own productivity and adopt innovative approaches to pricing, as well as continue to advise organisations on how best to deal with the recession and prepare for the recovery. These approaches are starting to yield dividends: evidence from the end of 2009 and start of 2010 suggests that demand for consulting is already starting to bounce back, a testimony to the value the industry adds.

Figure 1: Growth rates in like-for-like UK management consulting fee income 1997-2009



About the report

The data in this report was sourced via a comprehensive MCA survey of its member firms looking at the calendar year of 2009, undertaken in production of the larger 2010 UK Consulting Industry Statistics Report. Our sixty member companies comprise around 70% of the UK consulting industry, estimated to be worth £8bn in 2009, employ more than 40,000 consultants and work with over 90 of the top FTSE 100 companies and almost all parts of the public sector.

¹ The MCA has changed its definition of IT consulting this year to exclude certain services. We have therefore re-stated the 2008 figure to take this into account.



The average consultant in 2009 was 7% more productive for their consulting firm than 12 months earlier.

Although consultants have experienced downturns before, notably during 2002-03, this recession has been far more severe. Indeed, 2009 was the first year in which fee income actually fell since the MCA began gathering detailed data in 1997. MCA member firms' fee income contracted by 6% on a like-for-like basis, to £5.57 billion; down from £5.95 billion in 2008. This was partly because the volume of work fell, but also, no doubt, because fee rates for some types of consulting were also down. This means that the UK consulting industry is now worth around £7.96 billion, down from around £8.50¹ billion in 2008. There were some signs of a pick-up in demand for consultancy towards the end of 2009.

Very few areas of the consulting industry were untouched by the recession. Consulting firms have responded as they advise their clients to respond, by improving efficiency and profitability. There were some signs of a pick-up in demand for consulting towards the end of 2009.

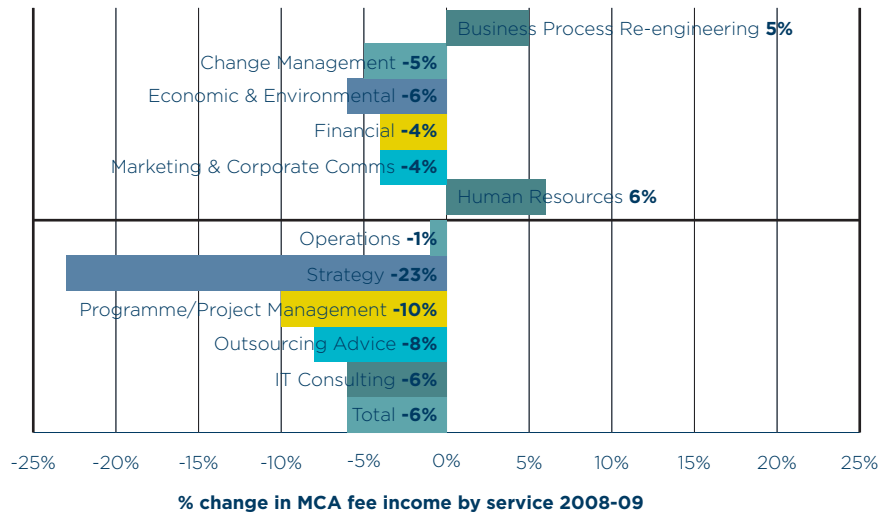
Productivity and innovation

MCA member firms reacted to falling demand by subtly developing their business models. Overall, the numbers of people employed by MCA member firms fell by 15%, to 40,000. However, administrative staff numbers dropped by more than a third, as firms improved the efficiency of their internal processes and support functions. Utilisation – the amount of available time spent working with clients and a key gauge of operational performance for consulting firms – was driven up by reducing the number of consultants. Although the number of fee-earning employees as a whole fell by 15% to 34,000, evidence from MCA member companies suggests that this process was largely managed by not replacing people who left, and by small, selective redundancies, rather than the large-scale job-losses which marked the 2002-03 downturn.

Despite this, the number of senior staff rose by 10%, an illustration of consulting firms' willingness to invest in expertise, even during a recession. By focusing on the value they could add and their depth of know-how, consulting firms faced less pressure on fee rates compared to previous downturns. "One of the factors we've noted is that during the recession clients have focused more on ensuring that they really get value for money from their consultancy spend rather than simply trying to reduce fee rates," comments Mark Fearn at The Berkeley Partnership. The industry also saw an increase in the amount of work done on a performance-related basis, the topic of a further MCA report later in 2010.

All these changes mean that, by the end of 2009, the average consultant in 2009 was 7% more productive for their consulting firm than 12 months earlier.

Figure 2: Percentage change in MCA fee income by service 2008-2009



“The top priority for the industry is to deliver value to clients. Organisations have clearly been tightening their belts, so the better they can understand the value that consultants create the better. Successful consulting firms are those that have an absolute passion for value.”

- David Thomlinson,
Accenture



Helping organisations deal with recession and prepare for recovery

Despite, or perhaps because of, the ferocity of the recession, consultants were still in demand when it came to helping organisations improve efficiency. Demand for business process re-engineering grew by 5% on top of a 31% jump in 2008 (Figure 2). This helps organisations strip out unnecessary costs by looking at processes in their entirety, not just within individual functions. The market for operational improvement work shrank only very slightly, but is still twice the size that it was five years ago. Nor is the attention of consultants purely focused on cutting costs: a 6% growth in human resources consulting demonstrates the extent to which the industry has helped organisations deal with the recession's impact on their staff.

But not all services fared so well. Strategy consulting was down by almost a quarter: this is usually the main casualty of any recession so far as the consulting industry is concerned and reflects the extent to which the buyers of consulting have more pressing priorities.

IT consulting fell by 6%. Perhaps the only surprising thing about this statistic is that the fall was not greater. IT consulting grew by 4% in 2008 because the IT budgets for that year had been set before the financial crisis hit; budgets for 2009 would have been agreed in the last quarter, at the point of greatest uncertainty, and it is evidence of how much organisations have striven to protect their investment in IT that the reduction that flowed through into 2009 was only 6%.



The experience of local government demonstrates the role that consultants play in helping organisations adapt to radically different economic environments.

Helping the public sector to cut costs and improve delivery

Two trends in public sector consulting stand out.

Central government's expenditure on management consultants fell by 8%. The only areas which saw an increase were IT consulting and process re-engineering, as the government continues to invest in new technology and in improving its own efficiency. By contrast, the use of consultants in local government increased by 11%, although this is a much smaller market for consultants, roughly half the size of that in central government. Aware of the extent to which their expenditure will have to be cut in the coming years, local authorities have been particularly fast to react and to examine innovative solutions to their impending financial crisis. Their expenditure on operational efficiency consulting work rose by almost 50% and IT consulting by 35%.

The experience of local government demonstrates the role that consultants play in helping organisations adapt to radically different economic environments. With a substantial track record in improving productivity, exploiting the potential of new technology and managing change, consultants have become an integral part of the organisational landscape and a valued tool for managers in all sectors.

The Value of Consulting

Earlier this year the MCA published *The Value of Consulting* which, for the first time, quantifies the value the consulting industry generates for its clients. The report details the findings of a pioneering year-long research initiative undertaken by the MCA, which involved the analysis of 1800 consulting projects and in-depth interviews with 30 clients.

The research established that around 1% of projects failed to satisfy clients, 41% delivered what was expected from them, and 58% exceeded clients' expectations, generating value which was typically a multiple of fees paid. For these very satisfied clients, the value of the benefits of using consultancy was between two and 20 times its cost and, on average, around 10 times the fees paid. This suggests that the benefits of using consultants was worth around £56 billion to UK clients in 2008, a return of £6 for every £1 invested. Applying this same methodology to the fee income data for 2009, based on a smaller aggregate fee income for the industry as a whole, suggests that the UK consulting industry delivered benefits to clients equivalent to just over £50 billion.

To find out more about the MCA's Value of Consulting research programme, download the report and subscribe for the rest of the series visit www.mca.org.uk/value-consulting

Access the full 2010 UK Consulting Industry Statistics Report

The full 2010 UK Consulting Industry Statistics Report can be downloaded free of charge by staff of MCA member firms, and is available to purchase in PDF and hardcopy format by all non-member contacts.

Visit www.mca.org.uk/industry-research

About the MCA

The Management Consultancies Association (MCA) is the representative body for management consultancy firms in the UK. Our sixty member companies comprise around 70% of the UK consulting industry, estimated to be worth £8bn in 2009, employ more than 40,000 consultants and work with over 90 of the top FTSE 100 companies and almost all parts of the public sector.

The MCA informs and influences public debate on topical issues, and provides authoritative data on the industry. It commissions research and policy analysis and represents the industry in discussions with Government and other stakeholders. The MCA also facilitates networking and the sharing of best practice within the industry through events, publications and initiatives such as the Young MCA.

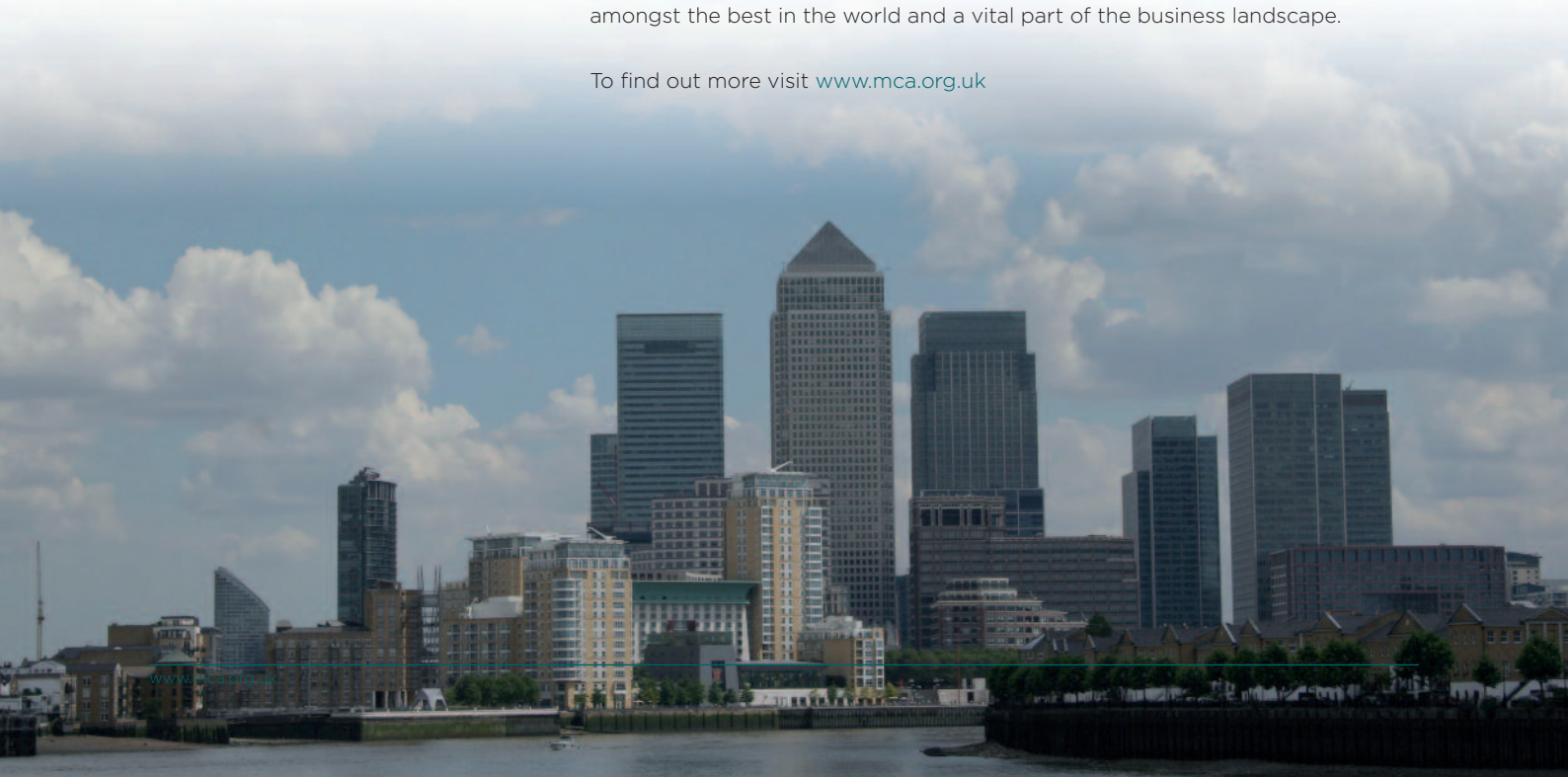
The MCA's tough entry criteria and rigorous Code of Practice mean that MCA member companies are widely acknowledged to provide high quality services to their clients. Many of their achievements are recognised in the annual MCA Awards.

In order to achieve its mission, the MCA is implementing a three year strategy that was developed following extensive consultation with member firms. It focuses on delivering value to members through three key objectives:

- Being the voice of the industry
- Promoting a credible and professional industry
- Creating better engagement with and between members.

Management consultancy creates value for organisations and the wider economy through improved performance, achieved by providing objective advice and implementing business solutions. The UK consulting industry is amongst the best in the world and a vital part of the business landscape.

To find out more visit www.mca.org.uk



About the MCA's Industry Research Programme

The MCA has published annual reports providing the most comprehensive analysis and data available on the UK consulting industry since 2002. The Annual Report analyses the state of the industry using data from the previous calendar year, and provides insights about future challenges. Since 2007 it has been supplemented by the Half Year Report that revisits the headline statistics using data from half one of the year in question.

In response to the growing need for regular data and insights into the UK Consulting Industry that are quick and easy to access, the MCA is launching the UK Consulting Industry Research Programme and new online subscription service. This new service is a must-have for any consulting firm or organisation with an interest in the UK management consulting industry.

2010 sees the publication of a series of four reports:

- 2010 UK Consulting Industry Statistics Report – April 2010
- Private versus Public Sector use of Management Consulting Report – June 2010
- Half Year UK Consulting Industry Report – Sept 2010
- 2011 Forecast and Long Term Trends Report – Nov 2010

From recession to recovery is a summary report of the annual UK Consulting Industry Statistics Report.

These reports are available on an annual subscription basis, as well as individual reports. Subscription and all report PDFs are free to all staff in MCA member firms. Non-member organisations can purchase annual subscription or individual reports, as required.

Visit www.mca.org.uk/industry-research

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A POSITIVE FORCE
FOR THE ECONOMY

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