MCA outlook:

Feeling the squeeze

If financial services is the engine room of the UK consulting industry, then **Fiona Czerniawska,** director of the think tank at the Management Consultancies Association, thinks its time to take the sector in for a service

It's not just that financial services play such a pivotal role in our economy as a whole, it accounts for around £1 in every £4 spent on consulting as well. This is far more than it does in other countries which is why we need to watch the recent upheaval in the stock markets so carefully.

First, there's the direct impact. With the sub-prime crisis decimating profits in the banking sectors, there will be much less money around especially for discretionary projects. Indeed, we're already seeing projects deferred. For the moment, the money is still there to be spent but people are holding off spending it.

But don't let this lull you into believing this is just a short-term issues – one of those infamous market adjustments. The full extent of the write-downs still isn't clear and the actual losses may turn out to be far great than those currently allowed for. Moreover, it will only take a few more pieces of bad news for the markets to take a much more substantial and sustained dive.

And that leads to a second cause for concern. The credit squeeze makes it harder for companies to invest. Thus, when the stock markets catch a cold, it's only a question of time until other sectors start to sneeze. This isn't yet having an impact on the consulting industry: while most firms found 2007 to be a much tougher year than 2006 and expect 2008 to be that much tougher again, they are not yet reporting signs of projects being canned in other parts of the private sector outside financial services. Probably for these sectors a bigger challenge for consultants will be spare capacity, as consultants seek to redeploy resources no longer required in a tighter financial services consulting market.

In 2001, this spare capacity was largely absorbed by the public sector. By sheer serendipity, the downturn in financial services consulting coincided with a host of new government initiatives aimed at improving the delivery of public services. This time around budgets are already tight in the public sector. Although a small number of large projects are underway there, this is now a market wary of buying consultants en bloc.

Third and finally, falling stock markets and rising profit warnings can only damage business confidence and it is this, more than any other single issue, which seriously threatens the fortunes of the consulting industry. A bank that's seen its profits fall will batten down the hatches but knowing such things are cyclical. An organisation that loses its confidence can take a long time to recover it.

So what does that mean for consulting firms? We need to be much clearer about the value of any given consulting project. What costs will it help cut? What revenue will it help generate? When will these benefits be realised? If we can do this, we may not be able

to improve an organisation's overall levels of confidence but we can at least give them the confidence to buy consultancy. CR

Vital statistics:

Still on target?

Annual inflation rates see consumer prices index up to 2.2% and retail prices index up to 4.1%