MCA outlook:

Buckle up for the ride

According to **Fiona Czerniawska**, director of the think tank at the Management Consultancies Association, there is no such thing as sensible growth in the consultancy industry

Pity the people who are responsible for business planning in consulting firms. With newly-released figures from the Management Consultancies Association (MCA) showing that the industry has taken yet another new twist in direction, plotting a sensible course for the future has never been more difficult.

Strong demand for consulting in the public sector and for outsourcing and outsourcing-related work in the private sector fuelled solid but unspectacular growth between 2001 and 2003. By 2004, there were hints that this was beginning to change. In 2005, the rate of growth in outsourcing-related work had slowed to 15%, down from more than 40% in 2003; that of public sector work fell from a massive 112% in 2003 to 22 percent in 2005.

So does that mean 2005 was a bad year for the consulting industry? Not a bit of it: like-for-like growth among MCA member firms was 25%, a level not seen since the heady days of the e-business boom. In particular, management consulting services rebounded by 43%. Leading the growth here is financial services, where consulting fee income has gone up by half as much again. Even manufacturing, a consulting backwater since the late 1990s, has seen an increase in demand, largely from specialised techniques such as Six Sigma and Lean Manufacturing.

But the MCA report also reveals how difficult it is for firms to plan ahead for these kinds of volte faces. Strong demand did not prevent average revenue per consultant falling from £167,000 in 2004 to £162,000 in 2005. Centralised procurement teams and lack of confidence among consulting firms themselves have conspired to keep prices down.

The other factor driving down revenue per-consultant is rapid recruitment and lower levels of utilisation. If you are working in management consulting you probably will not have noticed where revenue per-consultant jumped from £195,000 in 2004 to £237,000 in 2005. But the story in IT and outsourcing-related work is quite different. Here, average revenue per consultant fell by 17% to £113,000 and 19% to £149,000 respectively. At the same time, the number of consultants employed in these areas rose by 26% in IT, and an astounding 42% in outsourcing. In other words, consulting firms are still recruiting people rapidly into these areas even though the rate of growth in demand is falling. Classic economics, of course, tells us that excess supply will keep prices low.

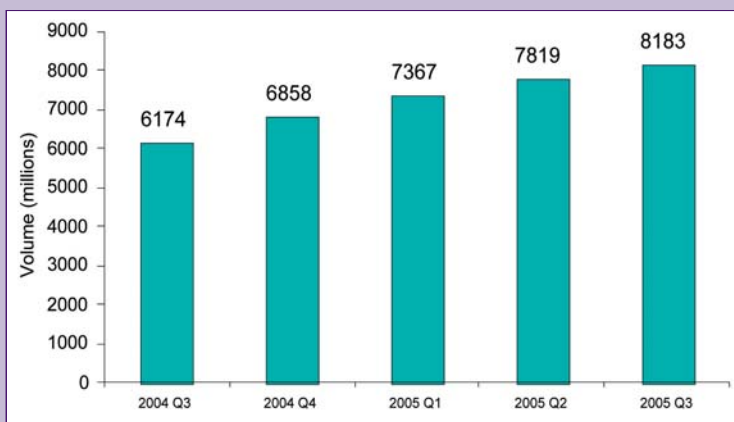
The problem for the business planners is that it is almost impossible to keep supply in synch with demand. And we can see this if we turn to the average fee income from firms, broken down by size. In 2005, the largest MCA members (fee income in excess of £500 million) grew by a third, having shrunk the previous year by 3%. By contrast, small firms (fee income less than £20 million), shrank by 10% in 2005, having on average doubled in size in 2004. This is not swings and roundabouts, this is a giant roller coaster ride so buckle up. CR

> “In the consultancy sector it is almost impossible to keep supply in synch with demand”

Vital statistics:

The joy of text

Volume of SMS and MMS (millions) in the UK



Source: Telecommunications Market Data Tables, Q3 2005