MCA outlook:

A soft landing?

Armageddon is late, again. Despite the doom and gloom predicted of the consultancy industry, **Fiona Czerniawska,** director of the think tank at the Management Consultancies Association, is cautiously optimistic

It's that time of year again, when the MCA publishes its annual survey of the consulting industry. Never easy to write because the consulting industry is in reality a series of micro-markets, this year's report has been especially difficult as the messages about the economy have been so mixed.

Let's start at the top. The UK's consulting industry grew by 10% in 2007, that's down from 16% in 2006 and 24% in 2005. In fact, given that the MCA's mid-year survey indicated that growth had been around 20% up to the end of June 2007, it looks as though the market didn't grow at all in the second half of last year.

Two factors are to blame. It will come as no surprise to hear that consulting in the banking sector shrank by 2% (it grew by 40% in 2006); stock market uncertainty and the credit squeeze both had an impact on how much discretionary expenditure was available.

In the public sector, spending on consultants also fell, by 15% in central government and by 24% in local government. Although part of this fall can be explained by a shift in the delivery of public services to executive agencies, where demand for consulting rose, it still demonstrates the extent to which the National Audit Office 2006 report on the use of consultants in central government has strengthened public servants' resolve to use fewer consultants.

That expenditure on consultants in both financial services and the public sector are falling at the same time should rightly be a cause for concern. Historically, they have tended to be counter cyclical, the one growing to absorb capacity as the other shrinks.

So is it all doom and gloom? There are two reasons why we should not be giving up just yet. First, at the time of writing, the economic news has improved: profits are clearly being squeezed but the Armageddon predicted at the start of the year has not yet materialised. Indeed, many consulting firms report good growth in the first quarter and strong order books for the rest of the year. Although we are by no means out of the woods, it does at least seem possible that this downturn will be more like that of 1997 - 6-12 months of indecision and low-level growth in consulting - rather than that of 2002-04 when successive waves of bad economic news severely depressed demand for consulting over a prolonged period.

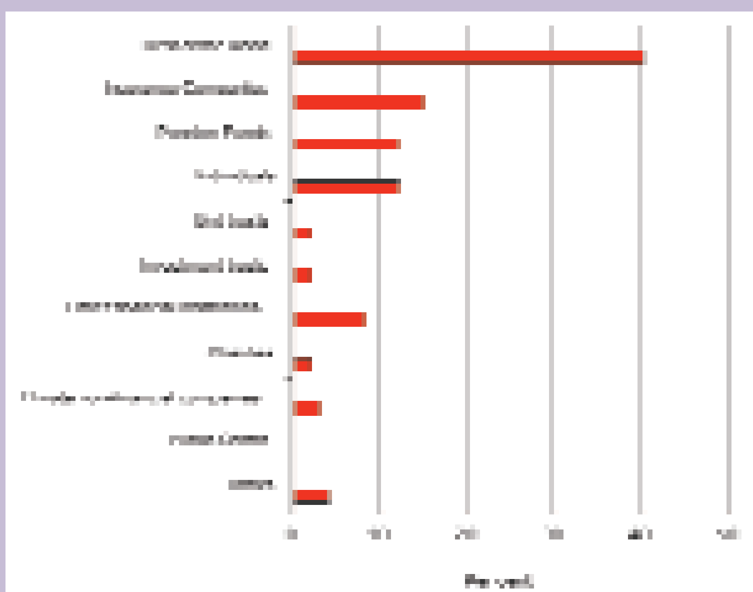
The second reason for cautious optimism is that, irrespective of whether we're facing a 1997 or 2002-type scenario, the patterns of demand will be different. In particular, 2002 saw a considerable backlash against IT expenditure, coming as it did after Y2K and the dot.com bubble. The backlash this time seems to be directed more at regulatory-driven work. It's as if clients, having been forced to invest in compliance, are now saying they have had enough. By contrast, demand for IT consulting and programme management remain strong, up by 16% and 44% respectively.

This is good news for the doers and delivers in consulting. Clients may have less money to spend in the coming year, but what they have they want to spend on projects that have tangible, measurable outputs. CR

Vital statistics:

In foreign hands

Foreign investors now hold two-fifths of UK shares



Source: www.statistics.gov.uk