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Consulting Prospects

Q4 2005 update:
Prospects for the Global Consulting market

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Consultants from the world's leading firms believe the outlook for consultancy is buoyant, driven by growth in FS consulting…

__Executive Summary__: ***Consulting Prospects*** is a quarterly survey of the management consulting industry. Its purpose is to provide a barometer of the state of the consulting market, to highlight the sectors showing the best potential for growth and to single out any new opportunities or constraints likely to impact the performance of consultancies in the coming year.

Think of it as an early-warning system that will alert you to both opportunities and threats in the marketplace.

Our first two quarterly surveys have been a huge success, polling 400+ consultants from leading firms such as Accenture, Atos Consulting, BearingPoint, Capgemini, Deloitte, EDS, IBM Business Consulting and PA Consulting.

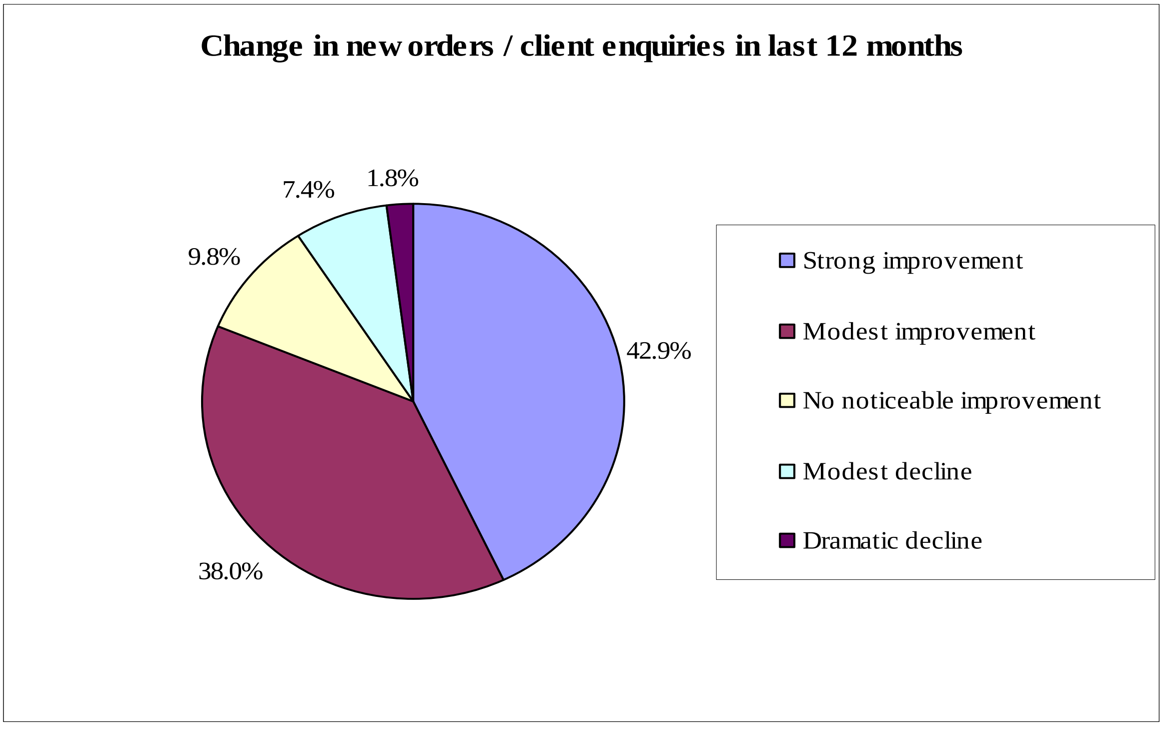
__Consulting industry increasingly positive:__ Overall, sentiments within these major firms are now very positive and the feel-good factor is growing. In our Q3 2005 survey, 75% of all respondents reported an increase in new orders and client enquiries in the last 12 months. In the latest Q4 2005 survey this figure had risen to 81% - ***81% of all respondents now believe new orders and client enquiries have improved over the last 12 months.***

In addition, 88% of respondents now believe there will be an improvement in new orders and client enquiries over the next 12 months, compared with 77% at the time of the Q3 2005 survey. Consultants are clearly ending the year on a high – and our US readers are particularly bullish, with 96% believing there will be an improvement in the next 12 months. ***The practice areas expected to achieve the strongest growth (in order) are: Financial Services, Public Sector, Energy & Utilities, Healthcare & Pharma and Telecoms, Media & Entertainment.***

Demand in 2005 is perceived to be up on 2004 and even higher levels of demand are expected as we move into 2006

Client demand on the increase: Looking first at aggregate demand levels within the consulting market, only 9.2% of respondents reported that client orders & enquiries were down in the last 12 months. This compares with 81% who report they are up since 2004. More striking still are the 42.9% of respondents reporting there has been a strong improvement in the last 12 months. US respondents were the most upbeat of all, highlighting that the recovery has now spread beyond the UK market and into the more significant US market.

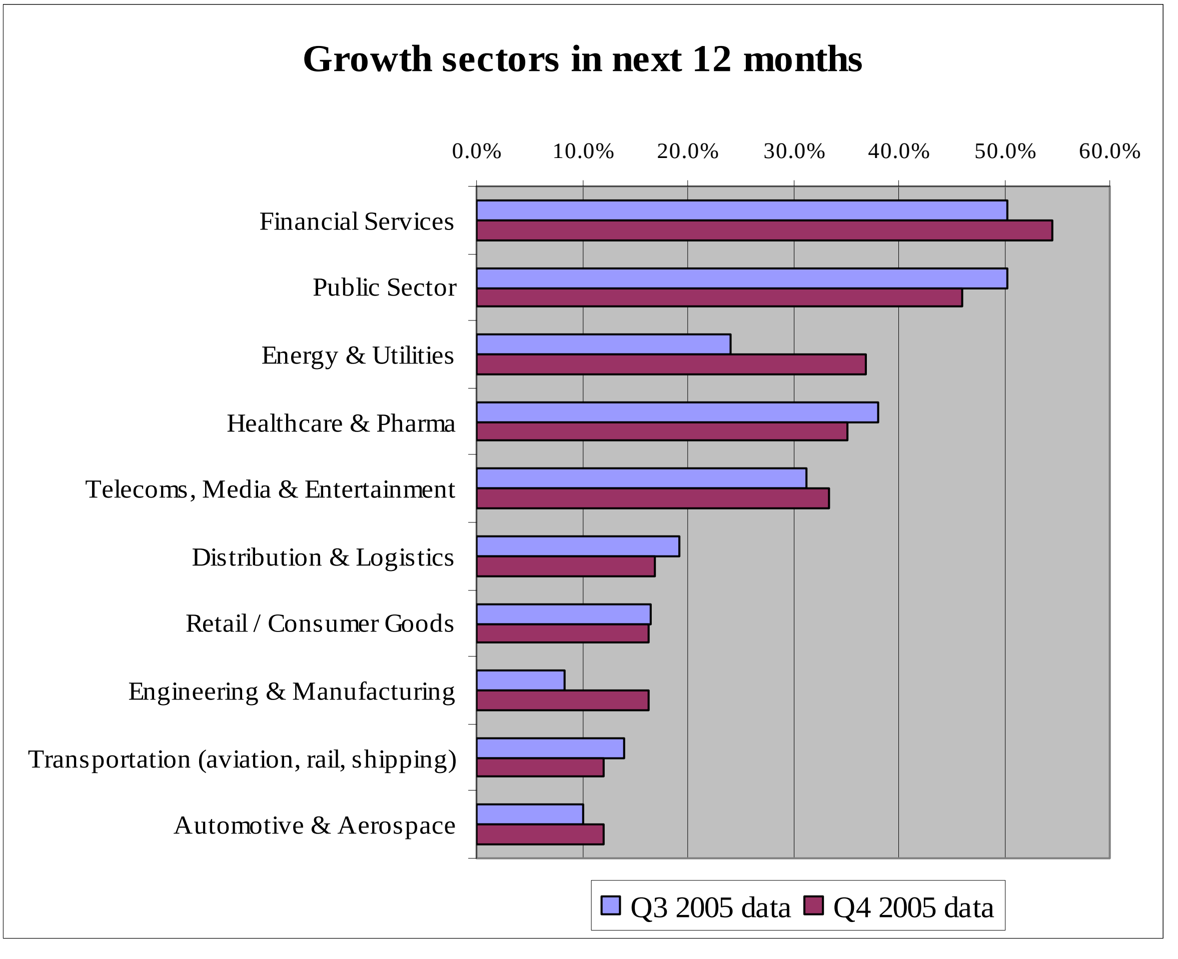
When their attention is turned to the future, consultants believe growth will be even more robust as we head into 2006, with 88.2% stating that client orders and enquiries will be up further in the next 12 months. Consultants' sentiments are more positive for the consulting industry than for the economy at large, which they perceive will strengthen only gradually in the coming year.



Financial Services and Energy & Utilities practices are expected to achieve the strongest improvements in demand

<u>Growth no longer restricted to Public Sector practices</u>: When asked to define which sectors will experience particularly strong consulting growth in the next 12 months, over half of all consultants identified Financial Services consulting - and confidence in both FS and Energy / Utilities practices has grown markedly over the last quarter.

Public sector consulting is still expected to grow in 2006 but momentum in this sector is seen to be in modest decline compared with practices serving the private sector. It is no coincidence that we have seen all these practice areas recruiting heavily in the last months.



However there's no new "Big Thing" on the horizon that will really stimulate a huge new surge of demand for consultants

Still no sign of "The Next Big Thing": When asked to identify new technologies or business opportunities on the horizon, our respondents could not see any huge new opportunities to exploit. So their optimism about prospects for our industry comes more from the perceived rebound in client demand than from any new area of consulting work.

Having said this, our respondents did identify a number of smaller pockets of growth for consultancies to exploit. Expect candidate shortages to develop for consultants experienced in:

-The Introduction of ID cards + associated data security issues

-E-Government and e-procurement enablement of public sector bodies

-Strategies for – and programme manager experience of – expanding electricity generation capacity to address impending energy shortages

-Media & Telecoms industries, both undergoing huge change as a result of seismic technological shifts

-The Deployment of RFID technologies

-Increasing burden of Compliance - Sarbanes Oxley & others

-Shared services within Government

-Mobilising the enterprise, e.g. wireless solutions and related business transformation

-Risk Management

-Olympics UK 2012

-Electronic Document and Records Management

-Legacy systems transformation + Electronic Health Records

Consultants at the world's leading firms also clearly feel their businesses are threatened or constrained on a number of counts…

Threats and constraints on consulting growth are seen to be on the rise: Our consultants were asked to highlight issues that are constraining the expansion of their businesses. Changes in the candidate market, the competitive landscape and increasing client sophistication were all seen as critical challenges. Foremost amongst their concerns were:

Growing difficulty in recruiting experienced staff. Competition for the best staff has rocketed; many consultants leaving their current employer are doing so to set up their own consultancy, reducing the available pool of talent; as such, resource shortages are increasingly business-critical and the "War for Talent" is back.

The increasing problem of staff retention. Respondents reported a growing problem of staff attrition and subdued fee rates mean this cannot be combated by company-wide pay rises.

Competition from both Indian competitors and niche specialists is resulting in harmful pricing pressures - billing rates are suffering and unlikely to return to historical levels.

Clients hiring ex-consultants and building in-house capabilities. Clients are taking proposals from consulting firms and trying to do them in house – and increasingly they are able to as the inability of consultancies to pay higher salaries is making career moves into industry increasingly attractive to ex-consultants.

Clients are increasingly sophisticated purchasers of consulting and are more likely to view consulting services as a commodity; consultancies are also being exposed to more risk / downside in project billing arrangements.

Appendix: Other Resources, Services & Contact details

We hope you have found this Consulting Prospects report illuminating. Other resources that may be of interest to you are our annual management consultancy Recruitment Channel Survey.

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