

Associate consultants: the intelligent staffing solution for the consulting industry?

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Research indicates that the four main pipeline challenges facing consulting firms today are their desire to grow, volatility in the market, staff turnover and the increasing demand for specialist expertise. In June 2005 Mindbench conducted a study of 21 consulting firms, including boutiques, strategy houses and large generalist consultancy companies to analyse how they are currently meeting these challenges and how they could adapt to adopt a more efficient approach to secure their position in this increasingly competitive market. Flexible staffing, in the form of Associates could provide the answer.

Challenges to the consulting pipeline

1. Increased staff utilisation

Over the last year, staff utilisation amongst consulting firms has shown a marked increase, jumping from an average at 65% in the second half of 2004 to 75% at the start of the same period in 2005. With strong sales growth projected for the short-medium term many consulting companies are looking for an annual growth of 10-15%, with some looking to grow as much as 30%+. In view of the current high utilisation rates, consulting companies will need to hire aggressively in order to meet these growth expectations.

2. Volatility in consulting demand

The level of M&A provides a good overall indication of firms desire to grow which feeds through into traditional management consultancy business, as companies spend on business strategy and due-diligence, and increase marketing consultancy. The European M&A market stood at \$1 trillion in 2000, halving in 2001 to 2003 and then recovering dramatically to \$1 trillion this year. Consulting companies focusing on outsourcing, cost reduction or government work have boomed during the 3 year downturn. These areas have counter-cyclical qualities as companies seek to reduce costs and government spending counter-acts a corporate slowdown. In contrast, firms focusing on business strategy have been seriously weakened by the downward part of the cycle, with some firms off-loading half or more of their consulting staff after 2000. With the cycle turning up from 2004, these firms have been re-hiring aggressively to try to meet the surge as companies focus on growing top-line. This process is disruptive and expensive: having lost some of their best talent and having destroyed goodwill, firms then need to invest in recruitment to rebuild.

With such volatility in the demand for consulting, firms need to adopt an intelligent approach to managing their pipeline, an approach which seeks to balance consulting demand and supply of consulting talent. Effective associate staffing could be integral to this approach, enabling firms to have the flexibility to meet demand surges and remain lean during droughts without off-loading core staff.

3. High staff turnover

High levels of staff turnover, traditionally associated with sectors such as retail (42%), present a further challenge to managing the consultancy pipeline. UK consultancy staff turnover levels rank comparably high, at an annual rate of 20%. To put it into perspective, this is 2% higher than the staff turnover at UK private sector call centres - described as having crisis levels of staff turnover - and is also higher than both the European and US averages. High staff turnover is a major problem for consulting companies in any business environment although an even more serious problem for consultancy companies looking to grow their business. Associate staffing, by offering a flexible resource, could provide the solution to this problem.

4. Demand for experienced specialists

Another potential problem for consulting companies is the demand for experienced

specialists due to an increased sophistication amongst the purchasers of consultancy services. This demand has resulted in a wave of new consultancy companies in recent years, focussing on particular sectors such as Troika (financial services) or on a particular consulting skill, such as 7 days (operational change). These companies succeed by leveraging deep expertise in their chosen areas, and by being upfront to their clients about their competencies. They are staffed by people with years or decades of relevant experience in the specific industries or consulting areas. The challenge facing consulting companies is how to recruit the specialist expertise required to win and deliver work in the new consulting environment cost effectively. It is little surprise that associates are an increasingly important part of the consultancy staffing mix.

Associate staffing: major growth theme

Data from the MCA for member companies 2002-2004, shows that the major growth theme in staffing to emerge across these years is in associate staffing. This increased 5% in 2002, 12% in 2003 and 7% in 2004. Our own experience indicates that major consulting firms, including several top strategy consultancies, have been modifying their staffing models over the last 3 years to make much greater use of associate staffing. This started during the consultancy down turn as these companies sought to minimise fixed costs. However from 2004, when the market started to pick-up, associate staffing has continued to increase. In the June 2005 Mindbench study of 21 consulting firms, 70% of these firms said they expected to increase their use of associates from 2005 to 2006.

And the other side of the coin driving the associate model is its popularity amongst consultants themselves. We estimate that there are around 60,000 management consultants working permanently with consultancy firms in the UK and around 10,000 independent or associate management consultants with previous experience in permanent consulting roles. Consultants are choosing to work as associates because it offers them the opportunity to choose work that they are genuinely interested in. It also gives them life-work balance, and the potential earnings although not guaranteed are comparable to, or higher, than those achievable as a permanent employee. We expect the trend for work life balance and a portfolio lifestyle to become more widespread, and the numbers of consultants working or looking to work as associates to increase substantially over the long term.

Why firms are turning to associate staff

Capacity management and the requirement for specialist skills are the key reasons for consultancy firms using associate staff. Associates can be an excellent way to manage capacity because there are only costs to pay when they are utilised and generating fee income. Associates can be an excellent way of managing specialist requirements because a consulting company through a wide associate network can access a vast array of specialist skills which only need to be called upon from time to time. Rather than having these people sitting on the bench as permanent staff, the associate model means that consulting firms can build dedicated teams which include sector and consulting skills experts cost effectively. It should be possible for consulting companies to transfer their financial pipeline risks to associates without increasing their overall costs. There are, of course, difficulties in achieving effective associate staffing, mainly linked to quality assurance and availability of the required expertise. In order to tackle these challenges consulting companies need to invest in their resource management function and possibly partner with a dedicated resource management company. This ensures that the same high standards are applied to associates as to permanent staff in terms of interviews and that firms have access to a sufficiently wide pool of associates to ensure availability of the right skill sets. When demand falls, associate staff are off-loaded, reducing overheads. Permanent staff remain, protecting the core capabilities, client relationship management, and good-will of the firm. Some regular associates are utilised even when demand is at the bottom of the cycle because they bring specialist skills which are needed for particular projects. The number of associates utilised increases during the upswing of the cycle as they take on more generalist requirements. When

there are demand surges the wider pool of associates is called upon. Associate staffing provides an intelligent means for consulting companies to grow their businesses effectively given pipeline volatility, the demand for specialists and high staff turnover. It is the flexibility and cost-effective nature of associate staffing that appeal to consulting companies. With more consultants interested in the option of associate work, and many firms prepared to adjust their staffing models, the associate staffing trend is set to continue.

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