

Ahead of the game

The new ground rules for success in consulting

by Mary Tod

The big international players are muscling out smaller competitors.

Ontario consultants need to expand their services and offer “one-stop shopping” to get longer-term, full-service contracts.

made Canada an attractive destination for global businesses, whose arrival has significantly changed the complexion of our business climate. Today, most sectors are dominated by a small number of larger players, each offering a broad range of products or services designed to make them the “one-stop shopping” destination of choice in their chosen market.

There isn't a sector or market in Canada that hasn't experienced the trend toward consolidation and convergence, including professional services. For example, the “Big Eight” accounting firms of a decade ago have now, through mergers, become the “Big Five”—fewer in number, but each much larger in size and continuing to grow and globalize. All are turning their former, loose international affiliations into financially and operationally integrated global companies. Each of these firms is pursuing its own strategy to become more globally competitive. Their services, which have long extended beyond just assurance



With the Canadian economy performing at its best level in years, and expected to continue to do so for some time to come, the last thing many consulting engineering firms may be concerned about is their future competitive ability. But they should be, and not just because this boom time will eventually come to an end. Permanent changes occurring in the marketplace as a result of globalization are creating new ground rules for success. Our affluent, developed economy has

and accounting, include tax, management consulting and other financial advisory services and, in many parts of the world, have crossed another professional boundary to also include legal services.

All professional services firms in Canada need to develop similar strategies to survive and win in the global marketplace.

A challenging marketplace

On an annual basis, consulting engineering is close to a \$6 billion business in Canada, making it the country's fourth-largest professional service sector. Only legal services (\$8 billion), information technology consulting (\$9.5 billion) and investment banking (\$10.25 billion) are larger. Such a large market might be expected to offer plenty of opportunities. However, its characteristics make it a particularly challenging environment in which to build and operate a business.

Despite the market's size, most consulting engineering firms are smaller niche businesses offering a narrow range of specialized services. They tend to take on limited-term, specialist assignments that seldom lead to follow-on work. As a result, the cost of sales for consulting engineering firms is higher than it is for firms in many other professions, since each new assignment must be won from a new client.

It's crucial that consulting engineers manage their projects for maximum efficiency, given their high cost of sales and project turnover rates, which often lead to periods of down time and lost revenues between assignments. Consulting engineering firms need to shift from short-term projects, to longer-term projects—not only building them, but also participating in their ongoing management and operations.

The problem: domestic market saturation

Perhaps because so many consulting engineering practices are small firms, most focus almost exclusively on serving the Canadian domestic market, since they lack the resources to manage overseas engagements. As a result, the Canadian consulting engineering market is saturated with an abundance of service providers, making competition tough at the best of times. When the economy is weak as, it was throughout much of the early 1990s, the entire profession suffers.

With so many service providers to choose from, price has become some clients' major selection criterion in purchasing what many see as a commodity service. That has kept consulting engineering fees much lower than those found in other professions—between \$80 and \$165 per hour. Some chartered accountants and lawyers charge over \$400 for an hour of their time.

Low fees lead to low revenues, presenting several practice management challenges. Without sufficient revenues, it's difficult to provide competitive compensation and create long-term career opportunities

for engineers and other professionals, leading to high levels of staff turnover. Replacing lost staff is costly enough, but the cost of doing business with less talented but more affordable professionals may be even greater.

Breaking out of the box

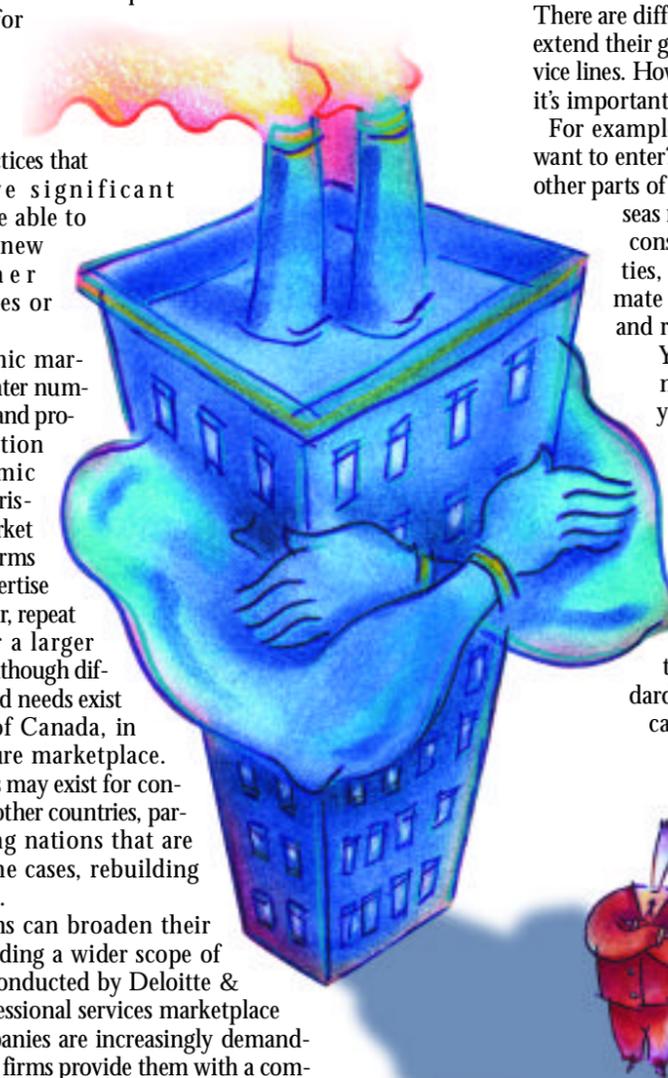
Current conditions in the consulting engineering market may become even less hospitable in future, especially for firms that continue to focus on providing the same services to an already mature market. Practices that want to achieve significant growth will only be able to do so by entering new markets—either geographic, services or both.

A larger geographic marketplace offers a greater number of opportunities and provides better protection against an economic downturn in one jurisdiction. A larger market also better enables firms to leverage their expertise (i.e. undertake similar, repeat assignments) over a larger number of clients. Although different conditions and needs exist in different parts of Canada, in general, it's a mature marketplace. Better opportunities may exist for consulting engineers in other countries, particularly developing nations that are building or, in some cases, rebuilding their infrastructures.

Another way firms can broaden their markets is by providing a wider scope of services. Research conducted by Deloitte & Touche on the professional services marketplace indicates that companies are increasingly demanding that engineering firms provide them with a comprehensive range of services.

A broad practice offering a wide range of services can:

- ◆ create greater potential for follow-on business, or for obtaining larger, more comprehensive engagements initially;
- ◆ create more career opportunities for staff, helping in their retention; and
- ◆ enable a firm to build stronger, value-based relationships with clients, helping to shift the focus away from price as the dominant criterion for



selecting a service provider.

Each firm must select the strategies that will best enable it to achieve its objectives for broadening its market. The options available to smaller niche players will differ from those that a larger practice may choose to pursue.

Building a niche practice

There are different ways in which smaller firms can extend their geographic reach and expand their service lines. However, before considering any of them, it's important to first identify your objectives.

For example, what geographic markets do you want to enter? Are there sufficient opportunities in other parts of Canada, or will you compete in overseas markets? If so, which ones? Be sure to consider not only the service opportunities, but also economic stability, the climate and culture, local business practices and requirements, etc.

You should also ask yourself what steps need to be taken to build a presence in your chosen market, and whether you have the necessary sales approaches and channels. Is the market best approached by concentrating on a particular industry, or by focusing on providing a specific specialist service? You also need to determine what infrastructure is needed to serve this market, including technology, facilities, policies and standards, management expertise, communication channels and decision-making processes.

Firms seeking to expand their scope of services should focus on those services that complement their existing expertise and can be developed by leveraging off that core knowledge. While expanding your services, it's important that you don't lose sight of what you are known for and good at providing.

Steps to successful expansion

Since consulting engineering largely comprises small players, a larger firm with the right resources can potentially seize a commanding

position in the market. Smaller firms may need to significantly expand their existing capabilities, however, if they are to serve a broader geographic or service market. There are three ways to do this.

The most straightforward approach—but also the slowest one—is to expand through organic growth. In this process, firms expand their capabilities by stretching their capabilities and adding staff as necessary to take on a progressively wider range of assignments.

A faster route to building competitive capability is for a firm to merge with another practice that serves markets that either augment or complement its own. For example, the international, Mississauga-based Hatch Associates has reorganized its management and systems consulting services into a new worldwide business unit called Hatch Beedows. Hatch recently added 900 employees in Australia when the company purchased BHP Engineering, expanding its e-business consulting services in the mining and metals sectors.

Normally, it takes time, energy and money to meld the cultures and operating practices of two organizations into a single, cohesive business. However, it can be well worth the effort with the right partner. Of course, each firm will have to give up some degree of its autonomy—how much may depend on the firm's size compared to its merger partner.

A third strategy is for a firm to develop a strategic alliance with another practice with complementary markets and capabilities. This approach may be taken as an end in itself, or as a preliminary step along the road to a full merger. In the latter case, strategic alliances enable both partners to gain a better understanding of each other, before committing the time and money to bring about a full merger. On the downside, however, it isn't as easy to develop synergies between the two firms as it would be if they were fully integrated and merged.

Larger practices on the move

Similarly to small firms, larger practices also need to identify the new geographic and service markets they wish to enter, and then add the capabilities they need to do so.

Agra Inc., one of North America's largest engineering and construction companies, announced its new strategy last fall to move away from six-digit capital projects, and expand its business with longer-term projects that focus on strategic development and customer service. Agra has also moved into new lines of business, including forestry, mining and consumer products, with its 1999 takeover of such companies as Simons International Corp. of Vancouver and engineering and construction contractor Birwelco Ltd. of Britain.

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Because they have greater internal resources, larger firms are better able to grow organically than smaller ones. However, they may want to augment internal growth with strategic alliances and mergers aimed at building capabilities in key areas. The considerations for pursuing these are much the same for big firms as they are for smaller ones. Essentially, it's a case of finding partnerships that add the desired skills and create the best synergies with the firm's existing practice areas.

Large firms preparing for expansion have three key issues to manage. First, they need to achieve the appropriate economies of scale in such areas as marketing, client relationship management, corporate management and support services, in order to lower costs, provide better services to clients and deliver services more productively and profitably. The key is to develop standard systems and leverage the firm's management talent in these areas.

Second, knowledge management is critical to every professional services firm—all of them, after all, are in the knowledge business. With more data to manage and more people within their companies to share it with, larger practices need to develop the appropriate databases, networks and service methodologies that will enable them to retain, disseminate and leverage the

knowledge they gain through their professional work.

Finally, larger practices that undertake a greater number of specialist assignments need to identify their experts and "champions" in niche areas, and leverage their expertise to gain the greatest value from their time and talent. Many professional services firms define these niches either by service line or industry sector. The objective is to maximize the impact of each expert's hours in his or her niche area.

Consulting engineering in the 21st century

Increasingly, clients are searching for consulting engineers capable of providing a comprehensive range of services. They want "turnkey solutions" and are willing to pay for them. In the future, consulting engineering projects will be both longer term and far more multidimensional in nature than they are today. Although smaller firms will be able to compete for these opportunities, they will only be successful if they can offer unique skills and/or have strong relationships with other key players. ◆

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