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Sample Issue

MARKET INTELLIGENCE REPORT:
European Retail Consulting Market

Human Capital Management Integral to Business Transformation

Consultancies offer it under several different names, but the business of assisting clients to recruit and manage their professional talent is a busy area of consulting in the current market, where personnel resources are becoming more appreciated as a corporate asset while their availability and turnover are becoming more problematic.

IBM Global Business Services sees this as an important market, and the firm's commitment and understanding that this is the next growth area attracted Tim Ringo to come on board in the role of global leader, Human Capital Management practice. He understands the market and the delivering of professional services in a large consultancy after more than a decade at Accenture.

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Data Index

Helping CPG Clients Meet Varied Challenges

Consumer packaged goods (CPG) companies work in an environment fraught with pressures from up and down the value chain and a pressing need to move quickly to stay in synch with consumers and ahead of the competition. Consultants are supporting this sector as it faces technology, international, financial, and social challenges.

Diamond Management & Technology Consultants' CPG practice includes food and beverage, health and beauty care, general merchandise, and other household products. Diamond does not include things such as consumer electronics or apparel, which may be part of CPG in other consultancies.

The practice is led by Mark Baum, who notes that CPG was not an industry that was originally targeted by Diamond as a vertical to which the firm was going to provide significant services. Diamond's initial focus was financial services, insurance, and risk management, but in recent years, other industries have emerged as prime candidates. They include health care, telco, the public sector, and most recently consumer goods. "For the first time, about a year ago, we really started making a specific effort to focus on CPG", says Baum.

The interest in CPG was spurred by a couple of characteristics. The

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Foreign and Domestic Clients Drive China Growth

Among the many consultancies that are finding huge opportunities in China, Grant Thornton International has been working in the country since the early 1990s, providing assistance primarily to companies moving into the country. Now there is growing demand from China-based companies for the firm's services, so building a stronger presence in the market is on the agenda.

The cornerstone of the Chinese practice has been Grant Thornton's Hong Kong practice. "We have a very strong practice there, with about 350 people", explains Grant Thornton US Chair of China Initiative Stephen Chipman. "Our Hong Kong practice in conjunction with our international firm has really been developing the China market."

"Over the last 10 to 15 years, every year we have seen an increasing number of our clients seeking to do business in China", says Chipman. "They have needed a variety of services in China – everything from how to set up an appropriate Chinese entity to tax structuring to traditional audit services for their consolidated auditing reports." Being in China was necessary not only to get a share of that business. It was also part of a fundamental strategy to protect the client base in the host countries. "If you

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Human Resource Management in Central Europe

While embracing a vast diversity of cultures among member countries, one can speak of a European school of thought in regard to human resource management (HRM).

The general trend observed in HRM in the nations of Central Europe can be summed up as "gradual Westernisation". Talented members of a workforce are now recognised as constituting a competitive edge in both business and non-profit organisations.

What are the historical common threads? They include the tradition of a social-democratic safety net, generous layoff notices, effective trade union movements, and the like. However, there is erosion now in each of these areas, and governments recognise that aging populations can be supported only by cutbacks in spending, higher taxation, or improved productivity. Still, when France wanted to change its labour laws to make younger workers more employable, protests and even riots ensued.

In regard to specific HRM practices, many researchers think that despite some trends toward convergence, wide diversity from country to country is likely to prevail. The divergence is manifest in several respects: different evaluation (performance measurement) systems; diversity in flexible employment (for example, the UK shows more rigidity than most other nations); HRM decisions done by a different mix of line managers and staff members in the various countries; and a range of personnel training and development, though expenditures in most cases hover at 3% of total labour costs.

A Cultural Shift Toward Westernisation

When the Iron Curtain lifted and the Berlin Wall fell in 1989, four decades of a "dark age" ended for the nations of Central and Eastern Europe. The Soviet Union (USSR) dissolved into Russia and a host of independent states; the former "satellite nations" were set loose and began to rebuild their own economies, frequently with direct foreign investment. Diversity ensued in political and economic terms, reflecting each nation's cultural tradition and industrial structure. Czechoslovakia (now the Czech Republic and Slovakia), Hungary, Poland, and Slovenia were in the forefront of liberalising economic policies and moving toward Western-style capitalism. New labour laws were enacted, tax systems were changed, the social welfare net was reined in, stock markets opened, and Western multinational companies began an acquisition spree. The past fifteen years has shown progress and reforms, but not without setbacks and problems.

The general trend observed in HRM in the nations of Central Europe can be summed up as "gradual Westernisation". Talented members of a workforce are now recognised as constituting a competitive edge in both business and non-profit organisations. Throughout the region, university graduates with up-to-date technical and managerial skills are in demand, with the former egalitarian pay structure giving way to sharper differentiation. Besides pure know-how, the soft side of competence – communication and interpersonal skills – has become more valuable.

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Consulting Firm Blacket Goes Under

Heavy losses have forced Edinburgh-based Blacket Research, set up to evaluate trustee decisions and investment consultants' advice to pension funds, into liquidation.

The biggest issue that kept the firm from a successful first year was the distraction caused by A-Day, the 6 April launch of new pension rules in the UK.

Another factor identified by management was the firm's failure to concentrate enough on the trustees with whom they needed to be working. One of the biggest challenges facing trustee boards is assessment of their investment consultants, but pension schemes are very conservative and slow to change.

The problem was one of breaking new ground, rather than competition, which would be a problem in a more mature market. There was no competition in Blacket's market. No other firm was providing assessment of investment consultants.

Glass & Associates Adds to Huron's Turnaround and Restructuring Business

Huron Consulting Group has entered into an agreement to acquire Glass & Associates, Inc. The firm's experience in turnaround and restructuring will supplement Huron's existing offerings under the Corporate Advisory Services practice.

While Huron gains expertise, Glass becomes part of a larger consultancy that will provide its clients with a broader portfolio of services.

Glass earned approximately $24 million in 2006. The purchase price of $30 million represents a 25% premium over revenue. In addition to the purchase price, Huron will be responsible for payments to Glass shareholders if specific performance targets are met, terms that are typical of such acquisitions.

John DiDonato, president, Glass & Associates, will lead Huron's Corporate Advisory Services practice. Dalton Edgecomb, Sanford Edlein, and Shaun Martin will join Huron as managing directors.

New Capgemini Outsourcing Data Centre in Germany

Capgemini has opened a new data centre in Frankfurt to support the firm's outsourcing activities. The space is being provided by European data centre service company IXEurope under a five-and-a-half-year agreement. The facility has the capacity to accommodate future expansion.

The outsourcing provider has been promoting a mix of onshore, nearshore, and offshore services, depending on what makes the most sense for each client. The Frankfurt centre will be available to deliver IT infrastructure services for German clients.

The IXEurope-Capgemini partnership has also been used in the firm's Paris data centre. Capgemini considers outsourcing facility operations to be an effective approach because it enables the firm to focus on the operation of its clients' IT applications and hardware, while letting IXEurope exercise its core competency in facility management.

Huron Consulting Acquires Wellspring Partners

Wellspring Partners, one of Huron Consulting Group's two recent acquisitions, is bringing management consulting experience in integrated performance improvement for hospitals and health systems, making Huron's health care consulting group one of the largest and most experienced in the US, according to the firm.

Huron is paying approximately $65 million for Wellspring Partners, reflecting an 18% premium over Wellspring's estimated $55 million revenue in 2006. Additional purchase consideration is payable if specific performance targets are met.

Wellspring's assets include a team of approximately 65 billable professionals and a network of 200 contractor specialists.

David Shade, Wellspring Partners' principal and chief executive officer, will lead Huron's Health Care practice. Laurence Abramson, Joseph Alfirevic, Stephen Furry, Janice James, Ramona Lacy, Gordon Mountford, Manfred Steiner, John Tiscornia, and George Whetsell will join Huron as managing directors.

Watson Wyatt Acquiring Netherlands Partner

Watson Wyatt Worldwide is acquiring its alliance partner in the Netherlands, Watson Wyatt Brans & Co.

The firm, a separate partnership under Watson Wyatt Worldwide, was formed when the Netherlands office of Watson Wyatt merged with Dutch actuarial consulting firm, Brans & Co. in 1999.

With 2006 revenues of approximately $37 million (Euro 28 million), Watson Wyatt Brans brings 180 associates located in five offices across the Netherlands. The firm gains Watson Wyatt Worldwide's global footprint to better serve its clients. ◆

Foreign and Domestic Clients Drive China Growth *(Continued from page 1)*

have a $500 million company in the US that is expanding into China and you cannot take care of them there, they are going to go somewhere else in all markets."

Since setting up shop in Hong Kong, Grant Thornton has been developing offices in Shanghai, Beijing, Guangzhou, and Shenzhen. Those offices are independent Chinese practices affiliated with the Hong Kong practice. "We have been working with those local practices to build Grant Thornton capabilities to an international standard", says Chipman.

Growing Demand from Chinese Clients

A big part of Grant Thornton's focus in China has been serving clients from around the world who are moving into the country. The firm's research indicates that companies from the US, UK, and an assortment of European countries make up the largest share of acquisitions in China, and many enterprises turn to their financial advisors as they prepare to do business in China.

"We still have huge demand to do that", asserts Chipman. "But we are now very focused, in parallel with that, on developing a market presence in China itself, because in the last few years there has emerged a big market opportunity within China for accounting services."

In recent years, Grant Thornton has seen burgeoning demand within China for international accounting and tax consulting capability. "You have a lot of Chinese entities that want to list internationally, and they have to have financial statements and financial reporting that meet the standards, whether it be the Hong Kong Exchange, Singapore Exchange, NASDAQ, London, or wherever they want to raise money", explains Chipman. "That is creating a huge demand for services in China with domestic Chinese companies."

Another growing source of domestic demand has been state-owned enterprises in China that are being restructured and require financial statements in compliance with international financial accounting standards. In addition, over time privately-owned enterprises in China will be required to adopt international financial accounting standards as well. "So you have private companies in China scratching their heads and wondering how they are going to start reporting under international financial accounting standards", says Chipman.

Coupled with record levels of FDI, this locally driven demand for accounting services is driving significant growth in professional services.

Meeting Client Needs

Grant Thornton has found that a significant number of Western companies considering entering China do so without a full understanding of all the issues. This, of course, could be good news for consultants. Assistance has ranged from standard accounting to a lot of handholding.

Chipman estimates that in 90% of the cases, clients he deals with are reacting somewhat opportunistically to China or are responding to a perceived need to be there because their competitors are there or customers are telling them they have to be there. "I spend a lot of time talking to clients, trying to help them understand the need to integrate China into a global strategy rather than just having it as a bolt-on to the existing strategy. I think nine out of 10 do not get that."

The range of services offered has had to be quite flexible. Seeing the broad range of needs, the firm tried

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Buying into China

Acquiring Country/Territory	Deal Value (US$m) 1/7/2005-30/06/2006	Market Share	Number of Deals
United States of America	5,365.4	26.1	62
United Kingdom	3,460.6	16.8	17
Singapore	1,840.0	9.0	30
Belgium	756.7	3.7	5
Hong Kong	584.1	2.8	51
Germany	399.2	1.9	7
France	321.7	1.6	4
Japan	242.1	1.2	12
Australia	234.0	1.1	4
Taiwan	166.6	0.8	8
Switzerland	125.0	0.6	2
Netherlands	120.6	0.6	10
Canada	110.4	0.5	10
Thailand	82.9	0.4	4
Italy	61.2	0.3	3
Malaysia	30.9	0.2	6
South Korea	30.3	0.2	4
United Arab Emirates	10.0	0.1	2
British Virgin Islands	4.2	0.0	2
Jordan	0.0	0.0	2

Source: Grant Thornton Corporate finance

Foreign and Domestic Clients Drive China Growth *(Continued from page 4)*

packaging an "Entry into China" service product, but it was not very successful. It was probably too rigid, in Chipman's opinion. "Now we just tailor the appropriate services to the circumstances of the client. It is much easier to just respond to our clients, put the teams together as appropriate, and deliver the services they need."

Meeting Consulting Demand

Despite the current and growing demand, the biggest restriction in China, which is being faced by all major firms, is people. "There is a massive shortage of qualified accountants in China, let alone accountants who are bilingual and have international accounting skills", explains Chipman. "All of the accounting firms are struggling with being able to support the growth potential because of a lack of skilled people."

Doing work in other regions where Grant Thornton may have more resources is, unfortunately, not the solution. The majority of the work needs to be done on the ground in China.

The firm prefers to transfer people from other markets into Hong Kong or China for medium- or long-term assignments of six months to two years. They then return to their host countries with a much broader experience base. "We want to do more of those", claims Chipman. "We have plans to significantly increase that programme."

Another approach to building the talent base in China involves recruiting in the US. Grant Thornton has launched a programme to recruit Chinese students from US universities. The graduates join the firm in the US, receive their training there, and then are assigned to one of the China offices. The programme, in place at selected universities, is well received by the students. "There is interest among these students to return to China, where 10 years ago they really wanted to stay in the US", says Chipman. "Now they are actually excited about going back to be part of what is happening in China and be part of a growth firm like ours. That is a big shift."

Going to Market

The typical US company looking at China often seems to call its accountants first, in Chipman's opinion. "I am dealing right now with two or three large $500 million-plus companies, and they are starting out with us." The firm reinforces this behaviour by maintaining strong partner relationships with CEOs and CFOs.

> *"There is a massive shortage of qualified accountants in China, let alone accountants who are bilingual and have international accounting skills. All of the accounting firms are struggling with being able to support the growth potential because of a lack of skilled people."*
>
> – Stephen Chipman, Chair of China Initiative, Grant Thornton US

Although it may start with Grant Thornton, the firm often partners with other professionals to provide the broad set of services needed by its clients. Other participants may include lawyers, outsourcing providers, real estate firms, insurers, and banks. There may be a need to make introductions to local government officials or to small niche consultancies that work in China and can do some of the handholding on the operational side that Grant Thornton does not have the capacity to do.

Depending on the type of work, Grant Thornton may serve a client with senior personnel or with a leveraged team. The larger listing engagements involve huge amounts of work that can be leveraged down to the staff level. "At the same time, the owners of the businesses want to deal with the senior-level partner who can help them get through the listing process and provide advice", says Chipman. And, of course, on the handholding projects, there is not a lot of leveraging.

The Big Four in China are currently consumed with two things: their very large global clients doing business in China and the state-owned enterprise projects, such as China Life and the four major banks that are going through public offerings. Grant Thornton wants to be well-positioned to go after the upper end of the market that is being passed over by the Big Four and is therefore wide open to new advisors.

A Promising Future With More Domestic Clients

In the absence of future political or economic problems, Grant Thornton expects continued significant growth.

The influx of companies and investment is not even close to a saturation point, but Chipman believes there may be a shift coming. China may try to level off the FDI curve and focus on the development of the domestic market. "I think you are going to see a little bit of a shift in percentage of focus of firms like ours from the FDI side to the local market." This is likely to include some growth in western China, but that may happen slowly. The biggest growth will be around existing opportunities in the coastal areas that have not yet been fully exploited. ◆

Human Capital Management Integral to Business Transformation *(Continued from page 1)*

Defining Human Capital Management

Although it may involve personnel, Ringo would argue that human capital management (HCM) is more than a fancy name for HR consulting. It is about CXOs wanting to get their hands on the people levers so that when they recruit great people, they can best manage them, train them, and integrate them into the team. Organisations are now looking at that entire human capital life cycle, instead of looking at pieces of it. "They want to know how to do it in a holistic fashion and drive transformation in the business", claims Ringo. "It is moving out of the HR agenda into what is becoming the enterprise agenda." That should be good for HR and good for the rest of the company. It is also good for employees because they are starting to be seen as assets.

Human capital is getting on the transformation agenda because there is new recognition of the value that can be created by well-managed resources. There is now an ability to begin measuring the impact of human capital on shareholders.

HCM may be on the minds of corporate leaders, but it is by no means at the top of every business' agenda. "I think we are halfway along the journey", opines Ringo. "I think that there is starting to be some real understanding in the CXO suite. This is one thing that urgently needs to be addressed because CXOs are trying to transform parts, if not all, of their businesses."

Leaders also recognise that the HR department is not necessarily the place from which to lead and manage the change. There is a debate about which part of the company owns the enterprise transformation agenda: it could be HR; it could be the COO. Companies are faced with figuring out how these two entities can work together to drive change in the organisation.

As corporations and their leaders are beginning to realise the significance of these concerns, IBM wants to get in the middle of that discussion and help clients sift through the issues. "It is going to be powerful for our business and our clients", asserts Ringo.

> *"What they have now started to recognise is that they got the new systems and the new processes, but they do not have people who can actually use those systems, adhere to those processes, or understand the overall organisation strategy. What they are realising is that the people got left behind in the enterprise transformations of five or six years ago."*
>
> – Tim Ringo, Global Leader,
> Human Capital Management practice,
> IBM Global Business Services

Recognising HCM as Key to Transformation

Successful transformation usually needs to address all three elements – people, process, and technology. But historically, process and technology got most of the attention. Human capital has been further down the list of things companies think about as part of enterprise transformation. When many companies did enterprise transformation a few years ago, the centrepieces were typically implementations of major ERP systems. They also worked on processes. "What they have now started to recognise is that they got the new systems and the new processes, but they do not have people who can actually use those systems, adhere to those processes, or understand the overall organisation strategy", says Ringo. "What they are realising is that the people got left behind in the enterprise transformations of five or six years ago."

So the people component is coming to the fore now because a lot of the other work is nearly done, and there is a realisation that it is time to get people aligned with the new systems, processes, and strategy. "That is the area we are focused on", asserts Ringo.

Other Client Human Capital Needs

An important emerging trend is enterprises asking what they are going to do with their retained HR workforces or retained IT workforces after an outsourcing decision. Those people have been working on fairly low-value tasks, which is why the work was outsourced. They can now be focused on much higher-value tasks. "You can now begin to up-skill them and provide them with much more interesting work", suggests Ringo. "That is exciting for people in those roles, and it is great for companies, because I believe you can build shareholder value on the back of that." And it is good for consultancies like IBM that are able to help companies make more of what they have.

Training is another consulting opportunity. In fact, Ringo sees it as the pointy end of the transformation spear. "A lot of times when companies come to us from a management consulting perspective, it is based upon wanting help with a training programme. Those become early-stage transformation opportunities, because it allows us to start to ask ques-

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Human Capital Management Integral to Business Transformation *(Continued from page 6)*

tions about where they are going next after training." Once the door is opened, IBM initiates a discussion that often allows it to identify transformation opportunities.

Although many of the HCM principles seem to have applicability across nearly all geographies, human resource issues can vary significantly with the industry. European telcos, mobile companies, and financial services companies are experiencing more pain around cross-border HR challenges. This is primarily because they have built their businesses by putting together pieces and parts of various companies around the world. "No one seems to have been able to crack that – how you get everybody aligned", says Ringo. That creates opportunities for HCM professionals as big companies recognise they have work to do to set up programmes to get everybody on the same page. "That is what the shareholders are expecting. That is why the shareholders approved these mergers. That is why people bought the stock. A lot of companies are just not delivering on that."

Financial services companies are currently keeping Ringo's practice very busy. "This is interesting, particularly within Europe, because when I first came to Europe, I could not give away human capital work. People were just not interested. People were the last thing they worried about; they were making so much money." Now the industry is facing the need to be more customer-focused, and that has directed more attention to recruiting, training, and performance-managing people. "This is keeping us busy, particularly for IT workforces within financial services. A lot of the work has been outsourced, and there are a lot of questions around the retained workforce. There are also questions around the whole customer-facing workforce and how they can interact better with people."

The oil companies have been big users of human capital solutions, particularly for trying to drive innovation. "They are trying out ways to increase human productivity", explains Ringo. "They have real problems sharing information and knowledge because knowledge is so vast and geographically dispersed that very few companies are able to manage it. They are looking to knowledge and collaboration solutions."

Pursuing Consulting Opportunities

IBM is involved with client HR issues on three fronts – management consulting, technology, and outsourcing solutions. All of these play a role in initiating opportunities for the HCM practice. "Sometimes opportunities come to us through HR outsourcing deals", says Ringo. "Other opportunities come to us through software solutions, like On Demand Workplace. Others come directly to us from a management consultancy perspective."

He estimates that most of the opportunities come from IBM's consulting footprint in the marketplace. A lot of opportunities are now coming from HR outsourcing, and that channel is growing rapidly. The smallest portion comes from software. Ringo is hoping to get roughly equal amounts of business from all three sources. "I am going to be spending some time with our software group, and we are going to develop a lot more business on the back of what is human-capital-based."

One logical link with other IBM offerings that Ringo is currently pursuing is On Demand Workplace. "Think about a technology asset that can be used within that human capital life cycle — giving people the ability to collaborate, share knowledge, train, manage their people themselves, and workforce manage. That is a very powerful thing to have on the desktop." He sees the entire on demand toolkit as very attractive. "One thing I found about HCM solutions is that you can articulate how HCM can transform a business, but if clients cannot put their hands on a tangible tool or asset [that demonstrates the transformation], it is harder for them to get their heads around it."

New Opportunities Expected

One thing that is starting to emerge is crowdsourcing, in which people not actually employed by a company are working as freelancers. They may work for several companies, work from home, and do various jobs according to their own schedules.

"Big companies are starting to ask questions about what to do about a workforce that actually does not work for them", says Ringo. "How do I recruit them, manage them, and train them to work for my company? If we are going to go with crowdsourcing rather than just outsourcing, how are we going to manage that?"

Ringo expects broader use of HCM concepts in the future. "I think human capital transformation, once it is really embedded in major companies and is seen as important, is going to start to go out to society at large. I think big companies are going to try to apply human capital techniques to their customers, reaching out and trying to educate their customers better in terms of buying and using products and solutions."

And it may expand beyond business. "I think it will affect the ways that children are educated", forecasts Ringo. "It is going to change schools and universities, so I would see things moving in that direction." ◆

Helping CPG Clients Meet Varied Challenges *(Continued from page 1)*

firm believed the sector was well-suited to Diamond's model of coupling deep functional-area expertise with the approach of deploying smaller, highly trained, multidisciplinary teams. In addition, CPG was seen as being on a threshold in terms of implementation of technology – both emerging and proven – and having an impact on other functional areas of the business, such as the supply chain or sales and marketing functions. "Those are areas where Diamond has considerable expertise that we believe could make a difference in the CPG marketplace", explains Baum.

Understanding the Marketplace Forces

CPG companies would not describe themselves as manufacturers in the classic sense, although manufacturing is what they do. "They would see themselves more as brand developers, product developers, or brand marketers", says Baum. "These are companies such as PepsiCo, Kraft, and Campbell, so it is difficult to talk about CPG without talking about retail in some sense, as well. They are so linked as trading partners."

So while Diamond has not focused its practice on retailers, the firm does spend a lot of time better understanding retailer trends. "We have included retailers in a lot of our original research as we developed intellectual capital", claims Baum. "What is going on in retail has an impact on the overall supply chain and on its collaborative relationship with CPG."

Consolidation among retailers has been going on for some time, resulting in growing retail strength in the marketplace. One outcome is a growing trend of retailers pushing requirements upstream to CPG companies. As companies have fewer, larger, and increasingly global companies as their trading partners, much more open business models with manufacturers are developing. This is necessary to improve collaboration in the relationship, but also to simply improve compliance with the demands retailers are making.

Technology is having a significant impact on CPG. In the case of RFID, the US Department of Defense is working with its suppliers. "Some of our clients are providers of MREs – meals ready to eat – for the troops, and the DoD is asking for everyone from munitions and apparel suppliers to food suppliers to become RFID compliant to be better able to track inventory anywhere, anytime", says Baum. "We are advising clients and also talking to the government about the realities of RFID – both in terms of the technological attributes and potential benefits as well as the physics of RFID – in order for the government to have a well-informed view of what the limitations of the technology are, knowing what it can and cannot do." Part of what Diamond is doing is helping clients to work through some of the myths and realities and to engage regulators in the discussion.

Another big issue is the growth of private label. "The quality of private-label products has gotten better, and the percentage of the overall assortment in stores has grown", says Baum. "I think that is blurring the lines between manufacturing and retailing, and in some cases, between customer and competitor." As more private labels make their way into the marketplace, consumers are becoming more loyal to the private label and, by extension, to the chain in which they buy those products. "That will have a direct impact on branded products that our clients are in the business of manufacturing."

Facing the Challenges of Going Global

"Our clients in CPG are increasingly global", notes Baum. Expansion across borders is being largely driven by a need to grow their businesses. "For the most part, the US marketplace is very mature, as is Western Europe's. So if you look at where the growth is going to come from, you have to look at emerging markets with rapidly growing consumer classes." They are looking for opportunities where there are healthy economies or emerging middle classes, such as in countries in South America. "They want stable economies and growing infrastructure." They also cannot resist the attraction of large consumer classes and fast-growing economies, such as in Brazil, Russia, India, and China.

The old business model favoured limited investment in new consumer markets. "Companies would manufacture outside those countries and find ways of distributing into those countries, or to the extent that they could, they would go in and set up a manufacturing plant and staff it with American employees already within the CPG company", explains Baum. "Now, in places like China, we are looking at a lot of alliances, using Chinese nationals to both develop and run the plants. We are looking for alliances with distributors in country to form exclusive relationships."

There is also a greater appreciation of the need to customise offerings for the market. Consumer wants and needs are being used to determine what CPG manufacturers should be supplying them. "It may mean a reformulation or a resizing of certain products, different pricing strategies, and reconfigured marketing strategies due to cultural differences", says Baum. "Our clients are really rethinking their entire approach along those lines as they enter these markets."

CPG companies have learned that strong brands in their home markets may not carry much weight in new

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Helping CPG Clients Meet Varied Challenges *(Continued from page 8)*

markets. There are examples of companies, such as Unilever or Nestle, that have been in countries like India for many years and enjoy some brand recognition. But it is not as strong as in Western nations. So the notion that a company can just go in and have its brand recognised as a household name is not valid in many new markets. It is often not possible to use the strength of an existing brand as it is.

From a marketing standpoint, not being tied to the Western brand identity opens up the possibility of positioning the product in whatever way provides the greatest advantage. There is no preconceived notion of what that brand represents.

Working and Complying With Regulators

Regulatory issues have been around since the birth of the industry. It is one that is largely controlled. "I think the difference we see in our clients, particularly in the last few years, is in engaging regulators", says Baum. Companies are acting much more in the spirit of cooperation in order to strengthen the industry and play a role in defining how the government helps the industry and avoids regulations that are too onerous. "The goal is to meet the highest standards without overburdening the industry in terms of unrealistic timetables or other damaging regulations."

A growing issue in the food and beverage sector is obesity. The industry is working closely with the US Food and Drug Administration, Department of Agriculture, and the Health and Human Services Administration to try to create a fact-based and science-based environment for better understanding of the issues around obesity. These include understanding the potential health benefits of certain products, the ability to make certain qualified health claims about products, and educating consumers about the new food guidance system (MyPyramid.gov) and the dietary guidelines that accompany those recommendations. "We are starting to see a much better public-private partnership in both getting the message out to consumers and hearing from both industry and government officials about these things. It helps to ensure that we have the right type of regulation and that consumers are enjoying the greatest benefit from it", says Baum.

> *"Manufacturers, to a large extent, are trying to find the balance between leveraging their brands for top line and organic growth and doing a better job of managing expenses, streamlining their supply chain, and getting greater productivity."*
>
> – Mark Baum, CPG Practice Leader, Diamond Management & Technology Consultants

There is also cooperation in the area of food and beverage safety and security. "This is an industry we would characterise as critical to the nation's food supply and one that could certainly be at risk to be targeted by bioterrorists", explains Baum. "We advise our clients to work closely with government to ensure we have the right safety measures; that there are lots of safeguards in place." When the government came out with standards for bioterrorism, consultants helped clients ensure that the industry was in compliance with those standards or went beyond the standards to guard the safety and security of the supply chain.

Strengthening Both the Top and Bottom Lines

Increase sales and profitability: these objectives are not unique to CPG, but are ones that definitely drive the business. Companies are refocusing on their brand portfolios. They are looking at their core businesses and making sure they are leveraging their core products and services in order to build the most profitable consumer franchise. "That in turn has an impact on their trade promotion, management strategies, and pricing strategies", explains Baum. "What that means is manufacturers, to a large extent, are trying to find the balance between leveraging their brands for top line and organic growth and doing a better job of managing expenses, streamlining their supply chain, and getting greater productivity."

"On the top line, the trend is to try to get better R&D, either internally or through an outsource model, which is the next wave of outsourcing", says Baum. BPO or strategic outsourcing traditionally involved outsourcing of IT, infrastructure, finance, and more recently some customer service. "But now there is an emerging trend in what we call knowledge process outsourcing. That might be things like buying the R&D from external sources."

The pursuit of top line growth involves a combination of new product development, real innovation, channel expansion, and in some cases, international expansion.

ERP implementation is a common approach on the expense management side. "Some companies are 80% to 90% through, while others are embarking on the beginning of that journey", estimates Baum. "They need to abandon legacy systems and streamline visibility from manufacturing through distribution. A number of our clients are doing that."

(Continued on page 10)

Helping CPG Clients Meet Varied Challenges *(Continued from page 9)*

Productivity and process improvement initiatives range from global business harmonisation to enable assigning responsibilities and streamlining processes throughout the value chain, to work in one particular functional area. These might be automating tools for the field sales organisation or trade promotion management.

Working With and Responding to Consumers

Diamond is also seeing what it calls the marketing remix. Technology – the Internet for example – has changed the way CPG companies interact with consumers. "You used to rely exclusively on your retail customer to manage that interface", explains Baum. "Now you can use dynamic Web sites to establish two-way relationships. Consumers can give you direct feedback on your products and have much greater and more direct input on new products, defining their needs, and describing what is important to them."

Baum explains that increasingly the values of the company from which consumers are purchasing a product are as important as the value of the product. Starbucks is as much about social statements, lifestyle statements, and bringing in free trading partners as it is about coffee. That is important to consumers.

In this same vein, sustainability is starting to emerge as a trend in the industry. "Wal-Mart has it front and centre, and it is not just because it is the right thing to do", observes Baum. It is right for the business as well. "If you can really focus on reducing packaging or energy required to run stores, those kinds of things lead to real savings. They also resonate well with consumers."

Managing Product Life Cycles and the Value Chain

The whole product life cycle management issue, both in terms of speeding new products to market and being able to mark down and move out old products as companies trim their portfolios, is increasingly important. Speed is of the essence as consumers become savvier and less willing to endure the traditional timeline for new product innovation. The challenge is also dealing with competitors' ability to be fast followers and get into that space quickly.

> *"As technology becomes more ubiquitous and impacts everything in the value chain, CPG companies are going to have to invest more in those emerging technologies. That is clearly an emerging issue."*
>
> – Mark Baum, CPG Practice Leader, Diamond Management & Technology Consultants

"While there has been an emphasis on bringing more new products to the marketplace and making them a larger percentage of your overall brand portfolio, there has not been a comparable increase in shelf space to accommodate all those products", reports Baum. "As that real estate becomes ever more precious, the need to make room for those products – moving older products off the shelf or out of the pipeline altogether – is just as important in order to smooth the way for new products."

Consulting Opportunities

The CPG industry is definitely one that has a history of buying consulting services. "It is not like we have to convince them of who we are or the value of consultants", declares Baum. "Some companies are more apt to try to utilise certain in-house resources on some issues than others. It depends on the depth and breadth of their own resources and what they consider to be their core competencies."

CPG companies spend a lot less on IT, as a percentage of revenue, than other industries. "We believe that means they are going to have to invest more, and that will create a greater demand for our services going forward", forecasts Baum. "As technology becomes more ubiquitous and impacts everything in the value chain, CPG companies are going to have to invest more in those emerging technologies. That is clearly an emerging issue."

The continuing increase of consolidation among retailers and growing retailer strength is going to have an impact on Diamond's clients. And as deals involve different players in the value chain – both wholesalers and retailers – there is going to be a need for more open business models, more transparency, and trust between trading partners. And all the members of the value chain are going to benefit from a greater ability to disseminate good, accurate, and timely information; data synchronisation; and collaborative planning. "Those things are going to become more important going forward", claims Baum.

"I believe it begins and ends with the consumer", says Baum. Creating new consumer experiences is going to be at the fore for CPG companies, particularly in pursuit of growth. "That may mean everything from their own retail stores as a way of better connecting with consumers, kiosks in other retail environments, online, and leveraging the convergence of telecom and media. Consumer experience is going to remain paramount." ◆

Human Resource Management in Central Europe *(Continued from page 2)*

In contrast, the role of bureaucracies and the power of trade unions have eroded, though by no means eradicated. Changes in labour laws have brought flexibility for both workers and employers. This was shown clearly when General Electric laid off almost 40% of the workforce at Tungsram in Hungary in the 1990s with generous settlements. GE even encouraged laid-off workers to become entrepreneurs as suppliers.

Use of Consultants in Central Europe

While companies pride themselves on having expertise within, they are also eager to tap outside advice – hence the heavy use of consultants in recent decades. The data of Table 1 show the extent to which such external experts offer counsel on a number of HRM topics. The "Western Countries" category shows a higher degree of utilising consultants for payroll, benefits, pensions, and outsourcing than does Hungary or the Central European cluster. Outside advisors are used heavily for training and development in both East and West (80% to 90%), and the same holds true for HRM information systems (69% to 79%).

Table 2 offers data on how management consultants allocate their time in various Central European countries. Clearly advice on HRM is significant, though it comes in third in all five nations, after advice on long-run strategy and short-run tactics (operations). It is notable that the "hot topic" of information technology is ranked lower in all five nations, well below the share devoted to HRM. The newest subject for consultants, another "hot topic", is outsourcing. But clearly it is not yet a major concern in these nations, although we think that it will grow in significance.

We begin to see some diversity in the use of consultants as shown in the data of Table 3. This table offers a short time series, 1999 to 2004, contrasting Hungary and Europe in HRM consultancy versus all other categories combined. While Europe shows a rising trend over the time span, from 6% to 11%, Hungary has consistently recorded a much higher range, 18% to 24%.

We attribute this to two factors: the flow of Western multinational firms into the country/region and the concern with labour costs, while also offering training and development in the country itself. In other words, there is a major shift, with emphasis more on the individual rather than on collective relations with employees ("retain talent, weed out the weak").

In Table 4, we see that HRM occupied a significant role in large organisations in Hungary during

(Continued on page 12)

Table 1: The Extent of Service Provided by Consultants to Organisations, in Various HR Categories, by Countries/Region (% of companies doing task)

	Payroll	Benefits	Pensions	Training & Development	Outsourcing	Information
Hungary	45.2%	48.4%	37.0%	86.2%	45.2%	78.7%
Central Europe	45.4%	35.3%	47.6%	86.4%	39.4%	68.8%
Western Countries	59.2%	63.1%	67.1%	89.7%	57.0%	74.3%

Source: Cranet (UK) Survey, 2005 and Univ. of Pecs (Hungary) Survey, 2005

Table 2: Distribution of Business Volume by Major Areas for Management Consultants, Central Europe (% of total)

Country	Strategy	Operations	Information Technology	Human Resources	Outsourcing	Total
Bulgaria	31%	30%	10%	24%	5%	100%
Czech Republic	31%	30%	10%	24%	5%	100%
Hungary	38%	37%	4%	21%	0%	100%
Romania	30%	45%	3%	15%	7%	100%
Slovenia	45%	30%	8%	14%	3%	100%

Source: FEACO (EU) Survey, 2005

Table 3: Proportion of Human Resource Management Consulting as Share of All Consulting, Hungary and Europe

	1999	2000	2001	2002	2003	2004
Hungary	18%	21%	18%	24%	20%	21%
Europe	6.0%	5.4%	4.5%	10.7%	10.2%	10.8%

Source: FEACO Survey, 2005 and primary research by the authors

Table 4: Utilisation of Inside and Outside Talent in HRM in Large Organisations, Hungary, 1997-2000 (% of firms)

	1997	1998	1999	2000
HR given high role	61%	65%	46%	59%
HR strategic plan in place	65%	81%	75%	60%
HR external consultant used during the year	60%	85%	88%	65%
HR software used during the year	80%	96%	100%	100%

Source: Primary research by the authors

Human Resource Management in Central Europe *(Continued from page 11)*

1997-2000 with the focus on planning ahead, the use of software, and the use of external consultants in a given year.

By the mid-1990s, major employers in Central Europe began taking surveys on their own and others' remuneration practices. By the end of the decade, with the aid of both domestic and foreign consultants, they moved on to sophisticated forms of job evaluation and "cafeteria" type wage and benefit schemes for their workforces.

Human resource consultants started to devise "pay for performance" programmes for both line and staff, for both white- and blue-collar workers. In reflecting Western practices, high rewards were offered to top performers, especially "chiefs" – chief executive, chief financial, and chief information officers. But at the same time, both companies and outside consultants emphasise talent utilisation and the building of harmonious relationships.

While companies pride themselves on having expertise within, they are also eager to tap outside advice – hence the heavy use of consultants in recent decades.

Note on Methodology and Contributors

This short paper is based on a much longer one presented at IBEC 2007, the International Business and Economy Conference, in San Francisco 4-7 January 2007.

Contributors to the longer paper include Professors F. Farkas and M. Karoliny of the University of Pecs, Hungary; Prof. M. Roberson of Eastern Kentucky University; and Prof. J. Susbauer of Cleveland State University. In mid-2007, IBEC will make the proceedings available in a CD format.

Portions of this paper and the longer version are based on primary research by the authors and on two major, multiyear surveys by two institutes. The first survey is by the Centre for European HRM at Cranfield University, UK (known as Cranet). The second survey is by the College of Economics & Management at the University of Pecs, Hungary (known as Pecs/PTE). Two of the tables rely also on FEACO, the European Federation of Management Consulting Associations.

Authors of this article are Dr. Jozsef Poor, Professor at University of Pecs, Pecs, Hungary, and Managing Director, Mercer HR Hungary; and Dr. Andrew Gross, Professor of International Business at Cleveland State University, Cleveland, Ohio, USA.

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MANAGEMENT CONSULTANT INTERNATIONAL

Market Intelligence Report

EUROPEAN RETAIL CONSULTING MARKET

Consultants Assist European Retailers in Highly Segmented Markets

As long as there are consumers with money to spend, retailers will remain an important part of global business. But they are constantly faced with competitive forces and changing customer expectations, so the industry is always in flux and in need of consultants' expertise. The landscape across Europe for retailers and consultants varies by country, so success requires local knowledge and competitive advantages.

Because retail is not consistent across Europe and there are different challenges in every local market, Karoline Nystrom, PA Consulting's European head of retail, views her consulting region as four distinct segments. "We talk about one bit being the stable and saturated Western Europe, including the UK. The second bit is the not-so-emerging markets in Eastern Europe, because that part of Europe is also getting a bit saturated and mature. The third bit is the prosperous countries in Scandinavia. The fourth bit, which is the most interesting, is the former Soviet states and especially Russia, which is a high-growth area. Each of those four different parts has a different focus in terms of market trends and in terms of consulting needs."

> *"[Russia and the former Soviet states] is a huge market with a huge potential and a huge growth rate. Unfortunately, it is quite risky to go in there because of a number of circumstances."*
>
> – Karoline Nystrom, European Head of Retail, PA Consulting Group

Saturated Western Europe

Most of the revenue in retailing and consulting comes from Western Europe. With few exceptions, the structure of the marketplace is very stable, and the retailers are not pursuing many acquisitions in those countries. "Companies are incrementally expanding, but not anything radical", says Nystrom. "This means if you want to grow your top or your bottom line, you have to depend on enhancing your products and services and making sure that you have the right cost base." Retailers are typically focused on getting a bigger share of customers' wallets. Perhaps the most dramatic changes involve some retailers pursuing diversification, where larger companies are moving to new products and new services.

INSIDE

Stable Eastern Europe

The second segment is Eastern Europe, which was exciting a few years ago when the market opened up after the Cold War. "That situation has stabilised now, and the interested parties are already in Eastern Europe", explains Nystrom. "Western companies have moved in, and that market is now fairly saturated."

The most interesting changes in this segment are spurts in consulting demand associated with countries preparing for entry into the EU. If countries have established trade barriers to protect certain industries, they will be facing huge amounts of new competition. Preparing those protected companies can provide consulting opportunities.

High Growth Scandinavia

The third European retail region comprises the prosperous Scandinavian countries, the part of Europe that has the highest growth rate in retail. Although the markets are mature, rapid economic growth is feeding retail growth. "The drawback of that market is that there are just not that many people living there", notes Nystrom. "They are quite small markets in general, so you have not seen a lot of entry from the multinational players, although it is growing extremely fast."

Challenge in Russia and Former Soviet States

The fourth and, in Nystrom's opinion, the most interesting segment involves expansion into Russia and the former Soviet states. "That is a huge market with a huge potential and a huge growth rate. Unfortunately, it is quite risky to go in there because of a number of circumstances." Politics and economics have started to become more stable, but things are by no means as predictable as in Western Europe or the US. "You need to spend a lot of time and effort on issues you do not have to deal with elsewhere."

Doing business and consulting in the region is interesting partly because of the variables associated with a risky environment, but also because of the size and growth rate predicted over the next 10 to 15 years. "There is huge untapped potential both in terms of retailers and in terms of the consulting market", asserts Nystrom. In the consulting market, no large firms have yet succeeded in gaining dominance. "Everybody is doing a bit of work, but there is a huge market that is yet to be won in that geographical area."

> *"So what is happening and driving a lot of the business consulting at the moment is really this cost optimisation and process design work. What retailers are looking for is the leanest, most efficient value chain strategy that they can have."*
>
> – Steve Sinclair, Global Head of Retail, PA Consulting Group

A lot of the Western retailers pulled out in the mid-90s when the economy faltered, and today many of them are considering going back, which creates opportunities for consultancies serving Western European clients. Consulting often involves assisting retailers in establishing greenfield operations. However, a few Russian retailers are fairly successful, so mergers and acquisitions are likely to begin occurring in the near future.

Retailers in the developing markets want to compress the learning curve and avoid some of the growing pains that Western companies experienced. "I do not think there is any way of actually jumping to the forefront of the market", says Nystrom. "We are talking about significant infrastructure that needs to be put in place to develop into a world-class retailer, and that takes time to develop. I think they are playing more of a game of catching up to the average rather than trying to get to the forefront."

These retailers are not yet advanced enough in their development to use benchmarks, although that may become a consulting opportunity in a couple of years. They are still addressing larger strategic issues and the fundamentals of the business.

Cross-border consulting generally has been a one-way business, with nearly all the activity involving Western retailers moving into the region. Russian retailers are not yet focusing on becoming multinationals. "They have enough potential in their own market", explains Nystrom. "And going into the saturated Western European market would not be all that attractive." When these retailers expand outside their borders, the direction will probably be to the east. "I think in a few years' time, it might be interesting to see them moving more towards Asia and especially China, which they have geographic proximity to, if the Western players have not already taken that market."

There is not much commonality between the four retail regions. They are very different in terms of where they have been and what is next for the retail businesses, so the focus is on completely different issues. To build up a company in Russia, clients need to establish the IT infrastructure, get the stores operating properly, and take all the necessary steps for a successful start-up. However, in Western Europe, retailers are more often tweaking the operation.

Four Consulting Segments

Consulting may address the business side and the technology side. Additionally, as Steve Sinclair, PA Consulting Group's global head of retail describes it, consulting may need to address things going on inside the enterprise and those involving participants or influencers external to the retail organisation. "Internal business consulting has a lot to do with process management and resource deployment – effective optimisation of internal resources." In this area, consultants are helping retailers with cost optimisation, which has the greatest affect on the bottom line.

> *"[Value retailers] are applying significant pressure in the market for all retailers because of the efficiencies and the economics of scale that they are forming and passing on to their customers. How to compete in that environment has become the number one issue."*
>
> – Brian Girouard, Global Retail Lead, Capgemini

The inside work on technology has a lot to do with legacy systems, integration, and ERP development – using tools such as Siebel, PeopleSoft, and Oracle. The outward view is mostly about things like outsourcing and shared services.

The outward view on business consulting is focused primarily on the customer. Getting this part right has a big effect on the top line. "It is driving revenue growth through brand development, brand strategy, or innovation, either in formats, in products, in new territories, or in line extensions", explains Sinclair.

The outside view is a specialty of L.E.K. Consulting, which positions itself as an externally focused consultancy. In the retail sector, most of its work is around markets and competition, rather than cost reduction or internal organisation, explains L.E.K. partner Jonathan Simmons. "Although there is always a grey line in some of the work we do. For example, work around store portfolio optimisation or proposition format development can get quite operational."

Competition

The need for consulting is often driven by changing pressures in the business environment. In Europe, as in other markets, the conventional price and value drivers are in play. "In the UK we have quite a lot of price deflation happening at the moment", explains Sinclair. This is the result of both very good sourcing and a very competitive marketplace. "You have the conventional players, like Tesco, that are really driving prices down." At the same time, retailers are experiencing cost inflation – salaries, energy costs, and store costs are all increasing. "So what is happening and driving a lot of the business consulting at the moment is really this cost optimisation and process design work. What retailers are looking for is the leanest, most efficient value chain strategy that they can have."

Simmons agrees that the power of Tesco is a major competitive issue, particularly in the UK. "They have been very successful in foods, and they are now diversifying very rapidly into other product areas, outside the food mainstream. A lot of the other more focused retailers, particularly high street retailers, are suffering because of that." This adds to the high street retailers' other challenges, including the Internet. Tesco is likely to become a concern across Europe, particularly Eastern Europe as the retailer moves into those countries.

The main issue is the rise of the value retailer, according to Brian Girouard, Capgemini's global retail lead. "They are applying significant pressure in the market for all retailers because of the efficiencies and the economies of scale that they are forming and passing on to their customers. How to compete in that environment has become the number one issue." As a result, there is extreme pressure on companies to take cost out or to control their costs in the supply chain and in the store.

> *"We are finding it very interesting to see how companies perceive themselves and how they are being seen by their customers."*
>
> – Edward Westenberg, European Retail Lead, Capgemini

Edward Westenberg, European retail lead for Capgemini, agrees. "They have ventured into most of the European geographies now, and they have come in with a super low price point offer. That has really eroded the market."

The prevalence of private label products is having an impact, but it varies by sector. In food, private label is a very important issue, but it has probably reached a level of saturation, according to Simmons. It plays a significant role in the clothing retail space in the UK.

Another driving force is in competing for the customer. Because retail is very competitive, many retailers in the UK and across Europe are looking at new products and new services that can increase their shares of the consumer wallet.

Most of the grocery sector is now looking at non-food because of the superior gross margins. Retailers are hoping to increase profitability by getting higher margin products on the shelves. New, non-core services are also being offered, such as telecommunications and a variety of financial services. "They are really trying to drive their margins up by being a one-stop shop for the consumer", says Sinclair.

Capgemini has seen this trend as well. "They are trying to offer everything, so it is a very mixed assortment that you now find in groceries, pharmacies, and what have you", says Westenberg. "They are offering products that would not have been part of the range in the old days."

Market Polarisation

The retail space is dominated by those at the low and high ends – discounters and high street shops. Those in the middle are not doing as well. "We used to talk about the bell-shaped curve, in which there was a middle market", notes Sinclair. "Now we have a well-shaped curve, where you have a very significant market share at the high-value volume end and at the luxury end."

Many of the discount retailers, such as H&M, New Look, Arcadia Group, and Top Shop are doing very well. "In the fashion world, these companies are really driving the prices down", observes Sinclair. Their efforts are working in combination with much better sourcing from the Far East and China, which is also driving down prices.

Retailers at the luxury end are also doing well, but only because they are being very discriminating in terms of the services and the products they are offering their customers, according to Sinclair.

The key attributes of the retail offer are often identified as product, price, access, experience, and service. Westenberg notes that, on a scale of one to five (where five is best), luxury retailers need to be at least a three to play. "Then you need to score a five on one of those attributes, and you need to be a four on your second and third to be a true winner." Assessing those attributes and the supporting services needed to achieve a three, four, or five rating is exactly the area in which clients need consulting assistance. "We are finding it very interesting to see how companies perceive themselves and how they are being seen by their customers."

The polarisation between branded products and low cost in Europe is confirmed by L.E.K.'s Simmons. "You see it very much in retail with the likes of Primark at one end – very much focused on low cost – and the high-level branded retailers, including department stores selling branded goods, doing very well in the market. You see the squeeze over the last few years of the middle-market retailers." Marks & Spencer suffered for quite a number of years, and Next is suffering now.

Stakeholder Pressure

Simmons sees the rise of private equity as having a large impact on the industry. Retail clients find there is very little room for underperformers. "There is more than usual pressure from the stock market through private equity houses to perform and show more short-term performance than medium- to long-term performance."

Simmons estimates that 30% of L.E.K.'s work in Europe is on private equity transaction due diligence. "The challenges for them in the retail arena are around extracting value through the P&L and balance sheet. Back four or five years, a lot of private equity was based on revenue growth. Now revenue growth is not enough." The competitive environment requires companies to focus on taking cost out and optimising the balance sheet.

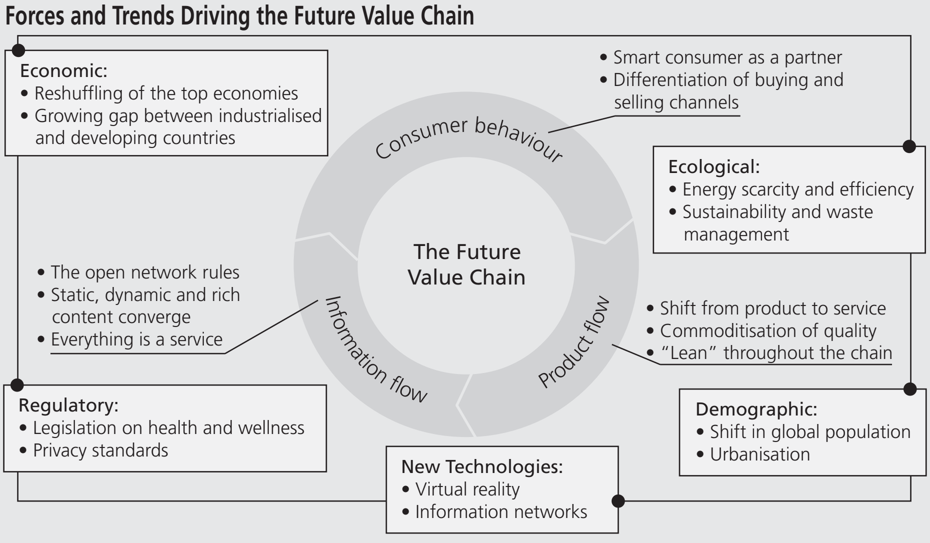
Retailers need to reduce costs and grow the top line. Both the requirement for performance and the competitive environments combine to force companies to focus on both. The challenge, which not all retailers have met successfully, is to reduce costs without affecting the customer experience and thereby damage sales.

Lowering costs in concert with lowering prices to consumers has been somewhat counterproductive, according to Westenberg. Some cost reductions are being pushed upstream, reducing suppliers' margins, and there is not as much money being spent on R&D in order to create new products. "There is just no money for that. At the end of the day, it is not to the advantage of the consumer."

Keeping an Eye on the Value Chain

The value chain is shared by providers of raw materials, product manufacturers, transportation providers, retailers, and financial institutions handling transactions. The forces impacting the value chain seem to be multi-

Forces and Trends Driving the Future Value Chain



Source: *2016 – The Future Value Chain;* GCI, Capgemini, and Intel plying, and they are often outside retailers' control.

Understanding the value chain's elements and influencers is top of mind for most companies. Retailers can no longer focus on only their portion and expect to succeed. The value chain's components are becoming more globally dispersed at the same time there is a need for them to become more integrated.

Substantial Retail Consulting in Europe

As in most client industries, consulting needs vary by company size. There is also a large community of consultancies that offer everything from a full suite of retail services to specialised solutions to individual issues.

Capgemini, which organisationally looks at retail and consumer products together, does most of its retail consulting in North America and Western Europe. According to Girouard, about 63% of the firm's retail business is in Europe, 36% is in North America, and the remaining 1% is in Asia Pacific.

Large firms, such as PA Consulting, tend to work with larger clients. Sinclair estimates that companies with turnover of less than $1 billion would typically be outside his firm's sweet spot. Smaller client companies tend to use less enterprise consulting, and they are more likely to use niche boutique consultancies. "They would use a niche in supply chain, or brand, or CRM", says Sinclair. "The larger players tend to have a more holistic view in terms of consulting. They tend to go with bigger consulting houses."

> *"You see it very much in retail with the likes of Primark at one end – very much focused on low cost – and the high-level branded retailers, including department stores selling branded goods, doing very well in the market. You see the squeeze over the last few years of the middle-market retailers."*
>
> – Jonathan Simmons, Partner, L.E.K. Consulting

PA Consulting's Karoline Nystrom estimates that retail consulting accounts for up to 30% of the firm's consulting revenue in some European countries.

PA is doing full corporate strategy development for some retailers in the high street. "We are looking at their full operation, giving them a view about where they should be playing, how they should be developing their product portfolio, their pricing strategy, their organisational design, their distribution, and their supply chain", says Sinclair. ◆

Next Month

Part two of the European Retail Consulting Market report will address many of the client challenges and resulting initiatives in which consultants are involved. These include customer segmentation, pricing, supply chain management, channel strategy, use of technology, and cost management.

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