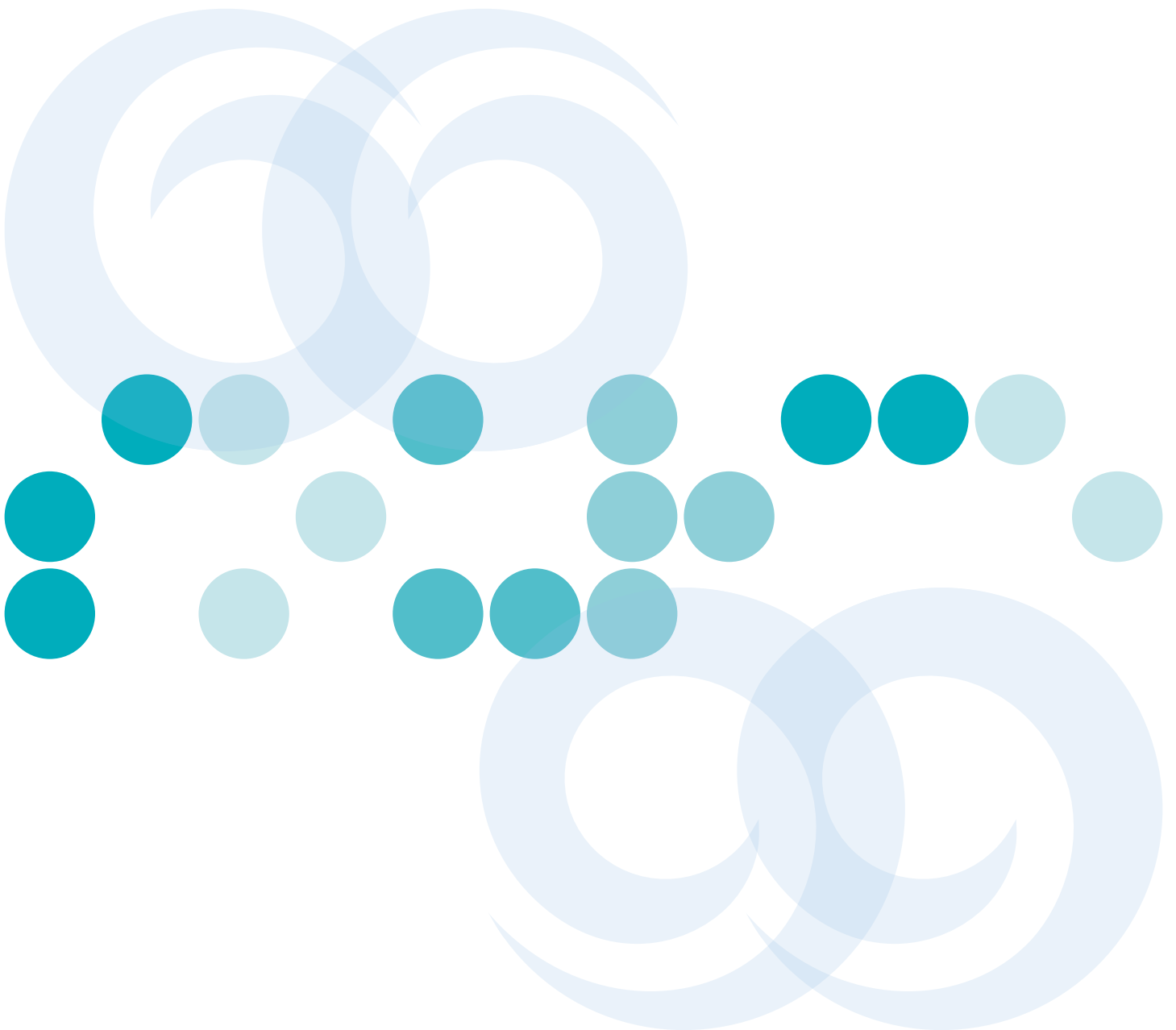


## M&A in the consulting industry



# Foreword

As the global consulting market has slowly heaved itself clear of the financial crisis that kept it subdued for so long, so the nature of the questions we get asked by the world's leading consulting firms has begun to change. All of those questions still have growth at their heart, but where the interest had, pretty much exclusively, been about organic growth, more recently the emphasis has been shifting to encompass inorganic growth opportunities, too.

For big consulting firms, that usually means acquisitions, but for their smaller counterparts it's just as often about finding a suitable firm with which to partner. Both want to know as much as possible before they show their hand in the market, but they need something more than a list of deals that have been completed: they need to be able to interpret the nature of those deals and set them within the context of market conditions and opportunities. They also need access to deep market insight in order both to develop the strategic rationale that will guide their approach to the market and to identify the right targets.

In recognition of that need, and of our role in serving it, I'm delighted to present the first of our quarterly briefings on M&A in the consulting industry. These will tell you about the deals that have been happening, but they'll offer valuable glimpses into the rationale behind the deals and the state of the market in which they were completed. Initially, we will focus on a different region of the global consulting market each quarter and pick specific markets within that region on which to conduct our analysis. We start with Asia Pac and put the spotlight on Australia specifically.

I sincerely hope you find these briefings helpful and would love to hear from you either if you have any suggestions about how we can make them better or if you'd like to speak to us about helping your firm with its growth strategy.

## **Margaret Cameron-Waller**

Head of Growth Strategies and Solutions



# Growth in Asia Pac consulting markets

In speaking to hundreds of consultants around the world every year, we get a pretty good sense of the markets about which there's the biggest buzz at any given moment. Recently it's been Asia Pac, a region in which, for the purposes of this briefing, we include India.

The greatest interest has centered on South East Asia – described by us recently as “the Snow White of the consulting world” – and specifically on the countries that constitute the emerging ASEAN economy, but there's much more to capture the interest of consultants right across the broader Asia Pac region. Indeed, such is the diversity of the region that it's one of the few parts of the world that can genuinely lay claim to having something for everyone when it comes to consulting opportunities, from emerging behemoths like China to mature markets like Japan and Singapore, and from the resolutely communist like Myanmar to the essentially “Western” like Australia.

Unsurprisingly, growth rates in the region's numerous consulting markets are similarly diverse. Our latest forecasts for 2015 (see figure 1 below) range from stellar to flat. Again, it's South East Asia from which the most exciting numbers are emerging: we expect double-digit growth in Indonesia, Malaysia, Vietnam, and Myanmar over the course of the next 12 months as consumer purchasing power grows and these countries start to benefit, economically, from greater collaboration with each other. Indeed, we ranked South East Asia seventh in our recent Market Attractiveness Index for 2015<sup>1</sup>, higher than any other emerging market except the GCC.

At the other end of scale from a growth perspective is Australia, a consulting market that, with a value of about \$4bn (US), is one of the largest in the world relative to the size of its economy, but that hasn't been growing well recently. A combination of political uncertainty, slowing demand from China, and an uncharacteristically unsettled political landscape probably accounts for that. We expect the Australian consulting market to grow in 2015, but only by about 3%. Despite that, it still sits in joint third place (with the GCC) in our Market Attractiveness Index, principally because of the extent to which Australian clients show a propensity for using consultants -- and for the amount they'll pay them.

Between them are China and India – consulting markets in which previously stellar growth has given way to tougher times recently. In China's case, this has to be seen in the context of its recent history: growth of 7% would be considered impressive in Europe and North America at the moment, but it isn't what consulting firms in China have become accustomed to. Multinational clients have been reining in their consulting budgets in China in response to a slowing domestic economy.

India, on the other hand, has been tough by anybody's standards. The economy hasn't been great, and the country is still finding its feet after its recent general election, but the simpler truth is that it's very hard for consulting firms to earn fees in India anything like they'd expect to earn elsewhere, and that leads many to question their commitment to the market.

Neither China nor India fare especially well in our Market Attractiveness Index for 2015, coming in 13th and 14th respectively out of the 19 markets we analyse. Without high levels of growth, the weaknesses of both countries' consulting markets are being exposed. Talent is a particular issue in China – employees are known for leaving at the first sign of a bigger pay cheque – while in India the biggest issue is that, despite the cost of talent rising sharply in recent years, average revenues per consultant remain stubbornly low.

<sup>1</sup> The Market Attractiveness Index is published annually as part of our *Strategic Planning Programme*. For 2015 it uses four metrics to assess attractiveness: the forecast rate of growth in the market, the ease with which firms can find and retain the talent they need, average revenue per consultant, and the propensity of clients to use consultants.

## Spotlight on Australia

### Market Structure

In this briefing, we take a deeper look at Australia – the largest and most attractive market in Asia Pac. Worth \$4.2bn (US) in 2013 (the last full year for which we have data), it grew at just 2% that year. We expect data for 2014 to reveal that growth picked up a bit, but not significantly, and we're not forecasting much in the way of fireworks for 2015 either: our latest estimate was for growth somewhere around the 3% mark. You can find a lot more information in our report *The Australian Consulting Market in 2014*, including a breakdown by sector and consulting service, but those are the headline numbers.

Perhaps more instructive for our purposes here are the numbers that relate to the structure of the market (see figure 2). We estimate that there are about 2,800 consulting firms in Australia which, for context, is 20 times the number in Indonesia, and while the vast majority of those have fewer than 200 employees, we think there are still 100 firms with 200 employees or more.

**Figure 2** Total number of firms in Australia, and split by size

# Firms estimated	# firms by staff numbers		
	<200	200-1000	>1000
Number (2800)	2700	75	25
% total	96%	3%	1%

Source: SFC global database; estimates

## Merger and acquisition activity in Australia 2012-2014 – acquisition patterns

In a mature market such as Australia, which despite a recent blip has been growing pretty well, and in which there are a large number of small firms with niche services and sector offerings, it is unsurprising to see an interest in M&A as a route to growth and the accelerated building of capability.

We've reviewed the major consulting firms' activity in Australia between 2012 and 2014 and have established that there were more than 30 noteworthy deals conducted by these firms during the period – including both acquisitions as well as key alliances, not least because the latter often leads to a full-blown acquisition (see figure 3). The deals were of varying size ranging from companies with under 10 people in an individual transaction up to 150. Note that we do not attempt to provide an exhaustive list of all deals but rather to analyse what we consider to be the strategically important deals in terms of helping us to understand what's happening in the market.

Date	Acquirer	Target	Capability	Size / people	Details / rationale	Chart ref
2014	IBM	Veda	Audit/assurance	Alliance	Leading provider of credit information and analysis in Australia. Agreement extends Veda's existing strategic outsourcing relationship with IBM.	A9
2014	KPMG	Artesian Venture Partners	Venture Capital	Alliance	Capital and support for startups	O3
2014	KPMG	Classic Slee Pty Ltd	Mining	< 5	Accounting and remote location services for mining industry	C7
2014	KPMG Advisory	Momentum Partners	Mining consultancy	28	Mining experts, clients include BHP Billiton, Rio Tinto, Fortescue Metals Group, Northern Star Resources, and Gindalbie Metals.	C3
2014	KPMG	Pacific Strategy Partners (Melbourne)	Strategy	<10	Expertise on agribusiness, consumer, and manufacturing cos	A7
2014	KPMG	SGA Property Consultancy	Property	65	Property, estate, and environmental consultancy services	O2
2014	KPMG	SR7	Digital	Not stated	Social media data and intelligence. Bought outright after 18-month alliance.	B5
2012	PwC	Thoughtworks	Digital	Alliance	Alliance to offer integrated service	B8
2013	PwC	GBI Mining Intelligence business (GBI)	Mining Data	Not stated	Aggregating and measuring data on mining equipment productivity and reliability worldwide.	C4
2013	PwC	Intunity Digital Solutions	Digital	30	Customised web and mobile solutions to aid improvement in efficiency, etc.	B6
2013	PwC	The Asset Partnership	Mining	Not stated	National provider of management services to the mining industry	C5
2013	PwC	Whittle Consulting	Mining	Alliance	Working together with PwC for marketing its enterprise optimisation service	C6
2014	PwC	MGI Melbourne	HNW	<10	Wealth management firm.	D3
2014	PwC	Pointmade	HNW	Alliance	Partnering activity to mentor family business clients on wealth and succession issues.	D2
2014	PwC	Stamford Interactive	Digital Design / Accessibility	35	Web accessibility services to federal and state governments	B9

## About Source

Source Information Services Limited (Source) is a leading provider of information about the market for management consulting. Set up in 2007 with offices in London and Dubai, Source serves both consulting firms and their clients with expert analysis, research and reporting. We draw not only on our extensive in-house experience, but also on the breadth of our relationships with both suppliers and buyers. All of our work is underpinned by our core values of intelligence, integrity, efficiency and transparency.

Source was founded by Fiona Czerniawska and Joy Burnford. Fiona is one of the world's leading experts on the consulting industry. She has written [numerous books](#) on the industry including: [The Intelligent Client](#) and The Economist books, [Business Consulting: A Guide to How it Works and How to Make it Work](#) and [Buying Professional Services](#).

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